103

MISSION OF FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER

OF THE

COMMITTEE ON AGRICULTURE

AND THE

SUBCOMMITTEE ON INFORMATION, JUSTICE, TRANSPORTATION, AND AGRICULTURE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

NOVEMBER 10 AND 16, 1993

Serial No. 103–50

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WITNESSES

MISSION OF FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

WEDNESDAY, NOVEMBER 10, 1993

HOUSE OF REPRESENTATIVES; SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER; COMMITTEE ON AGRICULTURE; JOINT WITH SUBCOMMITTEE ON INFORMATION, JUSTICE, TRANSPORTATION, AND AGRICULTURE; COMMITTEE ON GOVERNMENT OPERATIONS,

Washington, DC.

The subcommittees met, pursuant to call, at 9:35 a.m., in room 1300, Longworth House Office Building, Hon. Timothy J. Penny (chairman of the Subcommittee on Foreign Agriculture and Hunger) presiding, together with Hon. Gary A. Condit (chairman of the Subcommittee on Information, Justice, Transportation, and Agriculture).

Present from the Subcommittee on Foreign Agriculture and Hunger: Representatives Penny, Stenholm, and Allard.

Present from the Subcommittee on Information, Justice, Transportation, and Agriculture: Representatives Condit, Thurman, Woolsey, and Ros-Lehtinen.

Also present: Representative E (Kika) de la Garza, chairman, Committee on Agriculture, and Representative Pat Roberts, ranking minority member, Committee on Agriculture.

Staff present from the Committee on Agriculture: Gary R. Mitchell, minority staff director; Jan Rovecamp, clerk; Jane Shey, Bruce White, Anita R. Brown, and Lynn Gallagher.

Staff present from the Subcommittee on Information, Justice, Transportation, and Agriculture: Edward L. Armstrong, professional staff member; Aurora Ogg, clerk; and Diane M. Major, minority professional staff, Committee on Government Operations.

OPENING STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PENNY. The subcommittees will come to order.

I want to welcome the House Committee on Government Operations, Subcommittee on Information, Justice, Transportation, and Agriculture, for agreeing to work with us to sponsor this joint hearing to review the mission of the Foreign Agricultural Service.

With the dramatic changes in the political and economic climate in Eastern Europe, the former Soviet Union and Asia, it is appropriate to examine the programs and tools available to American farmers and processors to export their agricultural products. At the same time, we are seeing internal changes within the U.S. Depart-

ment of Agriculture as Secretary Espy is reorganizing the Department and combining the functions of the FAS and the Office of Cooperation and Development.

Mr. Condit, who will join us shortly, and myself, thought that it would be valuable to evaluate existing FAS programs and to see what changes, if any, are needed to maintain the competitiveness of U.S. agricultural markets as we move to the 21st century. To help us in that effort, we have slated several witnesses for this morning's hearing.

I want to announce at the outset that I have been asked to testify before the Budget Committee at 10 a.m. I hope that will not keep me away very long. But in my absence, Chairman Condit will chair the hearing.

With that understanding, I call our first panel, Mr. Chris Goldthwait, Acting General Sales Manager and Assistant Administrator for Export Credits at the Foreign Agricultural Service, and I would ask that he be joined at the table by Allan Mendelowitz, Director of International Trade, Finance and Competitiveness Issues, with the General Government Division of the U.S. General Accounting Office.

I would ask that you provide testimony in the order in which you were introduced, and then we would proceed to questions.

I expect that there may be issues raised by the General Accounting Office that you may want to respond to, Chris, and since you will be speaking first, we will allow some opportunity for both you and Mr. Mendelowitz to interact on those points, in addition to any questions that surface from subcommittee members.

So with that, Chris, welcome and thank you and your associates for the hospitality extended to myself and my staff and Mr. Allard and his staff last Friday as we came down to tour your division.

STATEMENT OF CHRISTOPHER E. GOLDTHWAIT, ACTING GENERAL SALES MANAGER AND ASSISTANT ADMINISTRATOR, EXPORT CREDITS, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY PHIL MACKIE, ASSISTANT ADMINISTRATOR, COMMODITY AND MARKETING PROGRAMS

Mr. GOLDTHWAIT. Thank you, Mr. Chairman. It is indeed a pleasure to be with you this morning.

With me also this morning is Mr. Phil Mackie, our Assistant Administrator for Commodity and Marketing Programs.

Mr. Chairman, we very much appreciated the visit you made to FAS last week and I hope you got a little bit more indepth idea of what we do and we look forward to receiving various suggestions that you might formulate on the basis of that visit.

My written testimony, which I will ask with your permission to submit in full for the record, covers a number of issues, including the specific questions that were in your letter of invitation. To summarize, I will confine myself to speaking very briefly about three areas.

First, the mission of the Foreign Agricultural Service, and the new International Trade Service that we see emerging as we combine two existing agencies within the Department of Agriculture into a new agency. I will try to outline in a little more detail the

overall direction that—under the guidance of Secretary Espy, Under Secretary Moos—we have been developing for our export policy and our export programs. Then I will offer just a couple of brief comments about the specific questions that you posed to us.

Turning to the first of those issues, I think it is important to focus on mission for a number of reasons. You have alluded to some of the very important changes that we see going on around us in the world in which we are trying to do our market promotion, and of course we have a new administration and a new Secretary of Agriculture who is very much dedicated to making these programs serve the farmers, the exporters, and indeed contribute to the well-being of all Americans through maintaining the reasonable food prices that we see prevailing. So as we look at mission, we look at a broadening as we combine two agencies into a new agency.

The export goals that we have in FAS will remain absolutely paramount and the service that they yield to our producers will guide us, as well as the services that we render to our various other clienteles. But there will be some broadening of this mission. There will be in the new agency equally important services to American producers that are derived through science and technological exchanges. And I think increasingly we are seeing an environment in which the general warmth or coldness of the agricultural relationship across the board contributes to a situation or an environment in which our exports do better or worse.

And I think that general recognition of the importance of the overall agricultural relationship is a very important new factor that we will be focusing on increasingly.

If I might comment very briefly about the overall direction of our export policy, I will note that in a recent speech, the Secretary outlined three themes: He spoke of restoring the competitive role of our bulk commodities. He spoke also of an increased focus not only on the emerging democracies that we see around the world, but also on the broader range of emerging markets that are going to be important to us. And I will have a number of things to say about that in a moment. And the third point I would describe in some depth is that broader agricultural relationship that I alluded to a moment ago.

With respect to the first of these goals, we see a situation in which our bulk commodity exports still face some very serious obstacles. We must remain competitive and we intend to with respect to encountering subsidies that are limits our competitors put before us. We intend to continue the pressure that we see with respect to trade policy initiatives that will level some of those barriers, and we intend to tackle some very specific trade distorting measures that have been headaches on a bilateral basis for a long time.

I will note in this regard, the Secretary's success not only in the recent visit to Japan, but also the commitment by the Chinese Minister of Agriculture to try to work with us to resolve the long-standing TCK fungus issue.

Turning to emerging markets, we mean several things. We mean new markets for new products, especially high-value products, because these products are accounting for the largest share of the growth in world markets that we see around us today. But we also mean a focus on the regions of the world that are the most rapidly

growing with respect to their agricultural imports. We have put a lot of emphasis in maintaining markets in a couple of key regions, the former Soviet Union in particular.

We need to match that with increased emphasis on the Pacific Rim countries, on southern China, on Indonesia, on some of the longer-term markets that are going to be developing in countries like India, Egypt, and Nigeria where there is a growing middle class that will be importing consumers for our commodities. We need also to in this context reexamine our various export tools, and I will come to that in a moment.

I mentioned already the broader agricultural relationship in a way, I think, that redounds not only to direct the benefit to American agriculture through exchanges and scientific joint research, but also the impact that has on the trade environment. Increasingly, as we meet with the agricultural ministers from various countries around the world, especially the emerging democracies which have not had the benefit of a free market agriculture, but also as we meet with contacts like the Minister of Agriculture from China, we, I think, are understanding more and more that our ability to cooperate across a broad range of agricultural issues is going to be extremely helpful to creating the environment in which our market promotion and our export tools will have the biggest effect.

Let me stop with that summary of the overall direction in which our policy is developing, and let me mention very quickly some of the points that I think would be helpful in responding to your specific questions.

You asked initially about the merger of our two organizations and whether this would overstrain our resources. I think clearly not. I think between the missions of these two organizations, we see a synergy that is going to be very useful to us. And, indeed, there will be some modest administrative changes as a result of this merger.

You asked if FAS has the capability already to identify emerging markets. The answer very clearly, I think, is yes. The challenge is not in identifying the markets, but in knowing how best to gain market share in them and gain the growth in agricultural exports in those markets that we would like to see.

You talked about some of the budget constraints that we are facing like all other parts of the Federal Government. I would say that this is a time when we need more than ever to emphasize agricultural exports, to emphasize the area that is indeed the future of the growth of agricultural income for our producers. I would be very hard-pressed to say that any of the specific pieces of our organization are not critical to the achievement of that mission.

You asked specifically about the emerging markets that I have already mentioned in passing. I will say that our intent is to use every effort that we can to look at these markets, to ask ourselves some very penetrating questions about whether the tools we have today are the best tools for these markets and whether they are used in the way to best exploit these markets.

I think we need to take a top-to-bottom look at various areas of our programs. And, indeed, with a new farm bill approaching, that is again a timely exercise. We will begin by looking indepth first on an in-house basis but increasingly with input from our various

clientele, from our sister agencies and others, at least four of our programs. The MPP is one where we have already made some progress.

The export enhancement program is one where if, as I believe we are going to be successful in achieving a resolution of the Uruguay Round, we would need to be making some changes. GSM, the export credit guarantee program, is a major program that also can benefit by a review.

Last, I would like for us to take a thorough look at the title I program, that has operational aspects. This is our oldest program that we are still operating more or less along the lines that it was initiated. And it is certainly time to take a look at how that program is working.

As I said, we will start by trying to work smarter in the spirit of the National Performance Review and asking the people who operate these programs for their thoughts on how they might be better run. But increasingly, we will seek input from producers, from exporters, from the other clients that we work with.

Your last question had to do with the TPCC process. Let me say only that we intend to be fully involved in that process, we have been fully involved in that process. And Mr. Mackie and others have been contributing to the interagency discussions that have resulted in the initial report.

Let me close, if I may, by simply pointing out an often forgotten story, a success story. I would like to point to the great benefit that all Americans derive from the fact that we have had relatively stable food prices in this country for four decades or more. I saw some statistics just yesterday that indicated that in 1992 the portion of per capita income that the average American spent on food fell to a new low of around 11.2 percent. Certainly, the entire complex of programs that we run that help to maintain a healthy agriculture, that help to maintain the agricultural producers' income at a reasonable level, is critical to this success.

I would contrast that with the problems we have seen in health care and other areas, and I would say that we will work hard with the guidance of this committee, with the guidance of our new Secretary, and Under Secretary, to try to be sure that we maintain the strength of the new ITS and our export programs so that we can continue that success story.

Thank you.

[The prepared statement of Mr. Goldthwait appears at the conclusion of this hearing.]

Mr. PENNY. Thank you, Chris.

Mr. Mendelowitz. Please proceed.

STATEMENT OF ALLAN I. MENDELOWITZ, MANAGING DIRECTOR, INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY PHIL THOMAS, ASSISTANT DIRECTOR, AGRICULTURE TRADE ISSUES, AND KEN GRAFFAM, PROJECT MANAGER

Mr. MENDELOWITZ. Thank you.

With your permission, I will be happy to submit my full statement for the record and make a few brief comments orally.

I am accompanied today by Phil Thomas, our Assistant Director for Agriculture Trade Issues, and also able staff including Ken Graffam, who is currently heading up the work we are doing for Chairman Rose on management issues at FAS.

My comments today are offered in the context of the current tight budget environment, the substantial resources USDA devotes to agricultural export programs, and the current USDA efforts to reorganize and improve their export programs.

Good management of these export programs is critical. However, in the past, FAS has frequently not effectively managed its programs. For instance, as I have noted in the past, under the market promotion program, FAS turns Government funds over to not-for-profit associations to either run market promotion programs themselves or pass the funds along to private for-profit companies to spend on their own market promotion activities. FAS retains little control over the funds provided to the private for-profit companies.

Furthermore, FAS does not obtain assurance that market development activities would not have been undertaken without Government assistance. For example, we have identified potential for substitution of public for private moneys with respect to the checkoff programs and the operation of MPP. Relatively small amounts of producer and handler funds raised through the checkoff programs are spent on export programs compared to the amount spent by the Government.

This is particularly important in light of the fact that the export and market development programs run by some of our major competitors are now paid for exclusively by producer levies. For example, CMA, the German export promotion program, funds all of its programs from producer levies. And even in France, SOPEXA, their Market Development and Export Promotion Agency, stopped receiving Government funds in 1992 and relies exclusively now on producer-raised funds.

In addition, FAS has still not yet established a limit on the length of time that a participant can receive assistance in a market before it is expected to assume the costs of its own market promotion efforts.

FAS also expends a significant amount of resources on reporting about overseas developments that affect U.S. agriculture. Based on an internal assessment, over a third of FAS's overseas staff resources are devoted to agricultural reporting. The reports are intended to support USDA programs, assist FAS in its trade policy work, and to disseminate information to industry about foreign competition and demand for U.S. farm products. However, much of the reporting is put to little use either by USDA or the U.S. agricultural industry.

Recently, FAS has done a major review of its reporting requirements and undertook some changes. There was a scaling back of some reporting requirement and there was a shift of some reporting from bulk commodities to HVP's, which are becoming an increasingly important share of our exports of agricultural products. However, there is still a lot that yet can be done and more research, I think, is needed to ensure that the reporting resources are well spent.

This review of required reporting only queried FAS staff and folks within USDA and no effort was made to query users outside the Government who are customers for this data to ascertain: one, how much of this material is really useful; two, how much of it is needed, and three, are there areas where the private sector is already providing comparable data which is more current and more useful and, therefore, duplicative Government data collection is not needed.

Last, strategic planning is very important for the efficient management of Government resources. Under the 1990 Food Act, USDA was required to develop a long-term agricultural trade strategy to guide the implementation of Federal export programs designed to promote the export of U.S. agricultural commodities. Our review indicates that this strategy, which was delivered 15 months late, in fact does very little to set meaningful priorities for agricultural export programs and resources. And we believe that a substantial amount of additional work is needed on this long-term agricultural trade strategy to make it a useful management tool.

In September 1993, the interagency Trade Promotion Coordinating Committee in response to a mandate established in the Export Enhancement Act of 1992, released a report on its efforts to develop a governmentwide strategic plan for export promotion programs. We are concerned with the apparent lack of substantial USDA program involvement within this governmentwide strategy, particularly since USDA receives the bulk of the Federal export promotion budget.

The plan made some substantial progress and made a number of significant proposals for reducing overlap and duplication, and improving efficiency in the operation of U.S. Government export promotion programs. However, the plan did not yet complete two of the major tasks assigned by the Enhancement Act of 1992, the first is setting governmentwide priorities for export promotion efforts, and the second is the creation of a governmentwide budget for export promotion.

The TPCC, in its report, made a firm commitment to complete the setting of governmentwide priorities and the governmentwide export promotion budget within the context of the President's 1995 budget proposal. We are concerned that to date, USDA's involvement in this effort has not been sufficient.

USDA is barely mentioned in the TPCC report. Potential areas of overlap, for example, in export financing that were dealt with in nonagricultural programs, were not addressed with regard to USDA programs in the TPCC effort. For example, areas of overlap and duplication in working capital export programs between SBA and Eximbank were dealt with explicitly in the plan. Areas of overlap in agricultural export finance between Eximbank and USDA were not mentioned at all. And as yet, we haven't seen the kind of detailed attention to agriculture's programs that have been applied to other programs within the Government.

This completes my summary comments and we will be happy to try to respond to your questions.

[The prepared statement of Mr. Mendelowitz appears at the conclusion of the hearing.]

Mr. PENNY. Thank you. We appreciate your participation in this morning's hearing.

As I indicated earlier, I, unfortunately, will be required to leave in just a minute to testify before the Budget Committee. Between now and adjournment, there is a major recision and reinventing Government package that will come to a vote. And together with Congressman Kasich, I have sort of put myself in the middle of that debate with an alternative and more far-reaching plan of Government restructuring and cost savings. And the Budget Committee has some mild interest in our proposal and so I have to leave now to go there.

But I will return and in my absence, Chairman Condit will take over and I will turn the chairmanship over to him at this point.

Mr. CONDIT [assuming chair]. Thank you very much.

We will try to move as quickly as we can through the hearing this morning and I would in advance apologize to the witnesses because there is a lot of activity going on today as Mr. Penny has indicated.

I will also, if Mr. Penny hasn't done so, ask unanimous consent that all subcommittee members are able to submit opening statements if they like, for the record and we will forego any statements.

I have one and if any other member has one, they are welcome to do that.

[The prepared statements of Mr. Condit and Mr. Thomas of Wyoming follow:]

Gary A. Condit, California, Chairman
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Karen Thurman, Florida
Lynn Woolsey, California
Bart Stupak, Michigan

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OPENING STATEMENT
CHAIRMAN GARY A. CONDIT

November 10, 1993

Good morning. We called today's hearing as part of a continuation of this Subcommittee's examination of U.S. agricultural exports and Mr. Penny's desire to reform FAS programs to make them work better.

There is some good news on the export front, 1992 agricultural exports were up over 12 percent to a total value of more than 42 billion dollars. Agricultural exports are estimated to create more than one million jobs in the U.S.

The USDA estimates that every dollar received from agriculture exports generates another dollar-and-one-half in business activity for the rest of the economy. Despite this good news, I think this is a time for great caution. We are in the midst of a great debate over the NAFTA, and agriculture has been brought back to the table in the GATT negotiations.

Because of my concerns I intend to keep this Subcommittee focused on what we can do to keep the U.S. the world leader in agricultural exports. I know my colleagues on both panels are like-minded and I greatly look forward to today's testimony.

Secretary Espy's reorganization plan envisions great changes for FAS. In fact, FAS would be moved to a new Under Secretary's department and renamed under Mr. Espy's proposal. While I am very supportive of the cost savings proposals and management improvements which could be the result of this reorganization--I have some great concerns. Hopefully, we will have a thoughtful discussion of the FAS reorganization today which will lead to a bipartisan and cooperative consensus on this issue.

I am also very interested in what is being done to implement the Department's long term trade strategy. This Subcommittee unfortunately had to fight with the USDA to get them to produce one--today will provide us with an excellent opportunity to check its progress.

I also hope to hear positive things about efforts to increase high value exports and new agricultural technologies today. I cannot think of a better way to stimulate job growth than to make sure that we do everything possible to add value to our raw products before they are exported. Study after study has indicated the potential of this to rural America. High value exports help our manufacturing, packaging and shipping industries as well.

I would once again like to commend Mr. Penny and his staff for their efforts in planning this joint hearing. This is an example of the type of cooperation that should take place between oversight and authorizing committees and I hope we can continue more of these efforts next year.

CRAIG THOMAS
WYOMING, AT LARGE

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OPENING STATEMENT

REVIEWING THE MISSION OF THE FOREIGN AGRICULTURAL SERVICE

November 10, 1993
Room 1300 Longworth

Mr. Chairmen, thank you both for holding this hearing concerning reorganization efforts of the USDA Foreign Agricultural Service. I look forward hearing the testimony of the witnesses.

The USDA is charged with an important task -- how to better expand U.S. agricultural markets abroad. There have been many efforts to enhance this effort with the help of loan guarantees, insurance, subsidies, credit and marketing grants. The results have been overwhelming since the United States exported $42.3 billion of agricultural products throughout the world during the Fiscal Year 1992. The potential to export more, however, is far greater depending upon how successful USDA realigns its mission and re-evaluates the products currently assisted.

Secretary Espy suggests moving the Foreign Agricultural Service to a newly created International Trade Agency as a way to move the farm programs closer to the products FAS is trying to export. The new name represents exactly what USDA is suppose to do. But a new name alone will not move the United States beyond $42 billion.

Reorganization efforts only scratch the surface. If we want to make our agricultural products more competitive throughout the 21st Century, there must be a fundamental shift in the functions of USDA. Creating a global mission is one thing -- getting huge bureaucracies to change is another.

International trade means setting a long-term strategy. It means steering away from micromanaging programs. And, it means assisting those commodities until they can stand on their own.

Mr. Chairmen, today's hearing will help us redefine that mission. I look forward to hearing from our witnesses on the changes they suggest for policies, such as the Market Promotion Program, the General Sales Manager program and the long-term agricultural trade strategy.

Mr. CONDIT. I would like to begin with the questioning. Mr. Goldthwait, what is your feeling about Mr. Mendelowitz' comment regarding the two items where you have been somewhat deficient, governmentwide budget planning, and I forget what the other one was?

Mr. MENDELOWITZ. Setting the governmentwide priorities for export promotion.

Mr. CONDIT. Can you make a comment to those?

Mr. GOLDTHWAIT. I think that I have outlined in my statement our view on what our priorities are with respect to agricultural promotion. And we will be trying to work more on developing the specifics that need to go along with those views. I have talked, for example, about the focus on the newly emerging markets, both for high-value products and for specific regions. We have a lot of work to do in order to effectively target those markets.

We have to meet with the importers, we have to be in contact and working with our exporters, we have to review the program tools that we have and determine whether or not they are, first of all, the right tools for those markets because there are some very different characteristics in markets like China, or like Indonesia, vis-a-vis markets like Japan or Western Europe or Canada. And, of course, I can't forget Mexico, where obviously we have some very important concerns and some very great opportunities as a result of NAFTA.

So we will be undertaking all the work that we can, as quickly as we can, to look at whether our programs indeed do need to be retargeted and whether or not, for example, in the upcoming farm bill, there needs to even be some legislative changes. So we intend to be full participants in that process.

These kinds of reviews are done on an ongoing basis but we are going to add some new emphasis to them at this particular point, and that will feed into our contribution to the TPCC.

Mr. CONDIT. So in short, those two points, you think that you are dealing with those and that over a period of time, hopefully, a short period of time, you will be up to speed in both areas; is that correct?

Mr. GOLDTHWAIT. Yes, exactly. There have been some—as the cochairman indicated in his opening statement, and my statement echos it, there have been some very profound changes in the market that we are looking at over the past year. And we need to make sure that we adjust to those changes.

Mr. CONDIT. Mr. Mendelowitz, you commented in your testimony that FAS has some shortcomings in its administration of the MPP program. Congress worked to require some reforms to the program this year. Do you believe this will satisfy your concern, what we have already done? I mean, does that make any improvement, in your opinion, on the program?

Mr. MENDELOWITZ. I believe that the congressional direction provided for the program is a very important step in the right direction. This is a significant program relative to what the Federal Government spends on export promotion, there is a lot of money committed. And we believe it is important that the potential good results that can be achieved through this program are achieved

consistently because of the design of the program rather than unevenly as has been the case in the past.

Mr. CONDIT. Are you suggesting possibly next year, I know Mr. Penny and I have talked about it, next year possible additional recommendations for the MPP program?

Mr. MENDELOWITZ. I think that we would during this coming year like to assess progress that is made. We are looking forward to working with Chris and the FAS folks and seeing how far down the road we go and then we will see if we can make some additional recommendations if they are needed.

Mr. CONDIT. Mr. Goldthwait, the FAS has experienced some financial control problems in its programs. Commercially, the burden of paperwork seems to be a major concern of yours. Is the answer to give FAS less paperwork but more accountability for the financial integrity of its programs?

Mr. GOLDTHWAIT. I would say that we take the financial integrity of the programs to be of absolute paramount importance. We have over the past several years introduced a whole series of additional program controls that are designed to protect the programs. We have introduced those as we have seen particular problems occur. I think we had some controls in place early on to prevent some very serious problems that could otherwise have occurred as well. It is time now that we go through very carefully and look at the series of program controls that we have in place, look at the series of requirements that we place on the program participants, see if there are ways to achieve the same thing more economically, both in terms of our time and their time.

I want to emphasize and underscore that in that process we will not step back from the goal of absolutely the best program integrity that we can preserve and the absolute lowest level of program abuse.

Mr. CONDIT. Mr. Mendelowitz, you noted that the FAS reports on honey were of little or no use to the producers interested in exporting honey. With the elimination of the honey program, we need to improve our ability to export this product. How can the FAS report on honey be improved to be responsive to the honey producers?

Mr. MENDELOWITZ. The first issue that has to be addressed is the extent to which our industry is competitive. We export relatively small amounts of honey, about half of it goes to the Middle East, and I think most of the rest of it goes to Germany and Japan. I think that the kind of reporting that would be helpful would be that which explores the nature of those markets where our products are competitive and to which we can export. This would involve a shift from reporting that dwells primarily on countries that are currently exporting to the United States to include counties which hold potential for purchasing U.S. honey exports, i.e., further developing markets where we currently export and identifying good prospects where we currently don't export.

Mr. CONDIT. Mr. Goldthwait, could you expand on the FAS's plan to review its reporting requirements and do you feel these plans will respond to the problem pointed out by GAO?

Mr. GOLDTHWAIT. We have recently completed an in-house review of the reports that we currently require and we have restructured our reporting requirements from our overseas offices quite

considerably as a result of that review. And those changes are being relayed to our field offices at the current time.

We have had a couple of things that we have had in mind as we have restructured the reporting. One is to strengthen the emphasis on the higher-value commodities, and two is to strengthen the emphasis on market development and market opportunities. So I think that this very much goes in the direction of Mr. Mendelowitz' statement, and I think we will have accomplished a great deal with respect to that review.

I might also indicate that while there is, of course, the need to focus on export markets, there are occasionally some special cases where we do need information about the imports we have from particular countries. In the case of honey, I might cite the instance of imports from China where there have been a series of problems, trade problems that we have faced with those imports. So there are cases where we need to continue to gather data on imported commodities as well as exported commodities.

Mr. CONDIT. Thank you.

To both of you, I am interested in hearing your opinions on the report recently released by the Trade Promotion Coordinating Committee. I believe that agriculture is somewhat unique, in a unique position in terms of export potential. I felt the report came up very short in emphasizing agricultural. Why was that?

Mr. MENDELOWITZ. I think you have identified one of the major weaknesses with the TPCC report that we also have been concerned about. And our assessment, our opinion, is that USDA was not as actively involved and engaged in the process in terms of putting its commodities and its programs on the table for discussion as were other agencies. I think the fact that USDA is almost unmentioned in the report reflects the lack of this active involvement.

Now, USDA representatives were there, participated in the interagency process that worked on the plan. They actively discussed and made helpful proposals on how to improve the programs of other agencies. But they did not put their own programs on the table in the same way.

Mr. CONDIT. Mr. Goldthwait.

Mr. GOLDTHWAIT. I will underscore what Mr. Mendelowitz said about our participation. We were very much involved in the discussions, in the process. We do have some serious questions, of course, about some of the ways in which the TPCC decided and determined what is and isn't a promotion program. So there were some concerns there on our part.

But I think we have very much been participants and I think that you will see increasing participation as the work of the TPCC is carried forward. Let me ask if Mr. Mackie could add to that, because he was very directly involved in that process.

Mr. CONDIT. Would you introduce Mr. Mackie for us?

Mr. GOLDTHWAIT. Mr. Mackie is our Assistant Administrator for Marketing and Commodity Programs. He has been very much involved in the TPCC.

Mr. MACKIE. Mr. Condit, we have been working with TPCC since it got off the ground in previous administrations, but the major effort in March of this year. I think I would respond to your question

as to why agricultural is not highlighted more specifically in the report is that the TPCC has been focusing on coordination of programs to a major extent. I think that the difference between the agricultural side and the industrial side is major there in the sense that within Agriculture, we have coordination of our programs, credit programs, and the policy programs, and promotion programs and the information programs, are coordinated within the Department of Agriculture. But that is not true on the industrial side, there are many other agencies involved in it.

Mr. CONDIT. Thank you, Mr. Mackie.

Regarding reports that you mentioned from the fields, what contact does FAS have with the industry to determine their particular needs?

Mr. GOLDTHWAIT. We have contacts of a couple of kinds, routinely. First of all, we have an ongoing high level of interaction and contact with exporters and with our market development cooperators, which provides useful feedback on our reporting. But also with respect to the publications that we put out, we routinely surveyed recipients of those publications to try to better determine whether or not we are in fact meeting their needs. And the results that we have received to those surveys are, I would say, by and large, very satisfactory.

Mr. CONDIT. I have several other questions, but we have several members here who want to ask questions and we want to move along, so I want to ask Mr. Allard if he has any questions or comments he would like to make?

Mr. ALLARD. Thank you very much for recognizing me. I would like to thank the panel members for taking the time this morning to testify before our subcommittee. Unfortunately, I am going to have to be in and out during testimony, and there may be some questions that I would like to have answered one way or the other. I may submit those, and I hope this panel and the next panel would be willing to respond to those in writing back to my office, if you would, please.

To start off with, I have an issue that has been brought to me by Congressman Combest. And apparently, there is some program with the GSM program and the export of cotton from Texas, and when that entry certificate is delivered and reimbursement and whatnot, and, Mr. Goldthwait, I wonder if you would be willing to take some time and sit down with Congressman Combest and look into detail just exactly what their problem is with the export of cotton to Mexico? I would appreciate it very much.

Mr. GOLDTHWAIT. We will certainly be glad to do that.

Mr. ALLARD. Thank you very much.

The other question that I have to bring up, and Chris or Mr. Goldthwait, I will direct that toward you. Apparently, we have FAS personnel that are assigned to some 80 overseas posts, covering some 100 countries. What is the geographic disposition of your personnel?

How many are assigned to Europe and the Pacific Rim and Latin America? And does the distribution of those personnel reflect the potential for U.S. agricultural exports?

Mr. GOLDTHWAIT. Let me give you a very general answer, if I may, and I will provide for you a specific listing that shows our precise staff distribution.

The staffing patterns that we currently have, I do believe reflect the kind of emphasis on potential that you are underscoring. In fact, we have been through a rather lengthy process within the last couple of years of evaluating each of our overseas posts and rank ordering them according to chiefly market development potential, but also some other important criteria like the reporting. And we have made some post closings and opened some new posts, enlarged other posts as a result of that effort.

We recently established an office within our agricultural affairs unit that will continue that work on an ongoing basis so that we can continue in our staffing decisions to reflect the best distribution. In point of fact, we are at the stage right now where if we do increase or open a new post overseas, we must compensate for that by closure of existing posts or downsizing. And there has been quite a lot of that, particularly in Western Europe and one or two other areas of mature markets in recent years.

Mr. ALLARD. Mr. Mendelowitz, I assume you have had an opportunity to look at the language in the Budget Reconciliation Act that we passed in August. And there was some very specific provisions in there on the market promotion program about trying to address some of the concerns in your report which was made prior to the passage of that. Are there any additional things that you think need to be done as far as the market promotion program or do we need to give those recommendations and those provisions that were in that budget reconciliation package a chance to operate before we move further?

Mr. MENDELOWITZ. No, we felt those were excellent directions and we believe that it would be appropriate to see how they work before we make additional suggested changes.

Mr. ALLARD. Mr. Chairman, I do have some more questions that I will submit to the panel. I am trying to adjust my balance of time between here and a couple other committees. So I will submit those in writing.

Thank you for your time.

[The information follows:]

ANSWERS TO QUESTIONS FOR THE RECORD
SUBMITTED BY
REPRESENTATIVE WAYNE ALLARD
SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
TO
GAO WITNESS ALLAN I. MENDELOWITZ
MANAGING DIRECTOR
INTERNATIONAL TRADE, FINANCE AND COMPETITIVENESS
GENERAL GOVERNMENT DIVISION

NOVEMBER 10, 1993

1.
PLEASE COMMENT ON THE RECOMMENDATION OF THE TRADE PROMOTION COORDINATING COMMITTEE TO REQUIRE THE FEDERAL GOVERNMENT TO HAVE A UNIFIED BUDGET FOR EXPORT PROMOTION PROGRAMS BY 1995. IN YOUR OPINION SHOULD THIS UNIFIED BUDGET INCLUDE ALL FAS PROGRAMS, EVEN THOSE THAT ARE NOT EXPORT PROMOTION PROGRAMS SUCH AS EEP AND THE CREDIT GUARANTEE PROGRAMS?

Developing a unified budget for all export promotion activities is one of the primary objectives assigned to the TPCC by the Export Enhancement Act of 1992 (P.L. 102-429). USDA programs, such as the Export Enhancement Program (EEP) and the General Sales Manager (GSM) 102 and 103 credit guarantee programs, which are both designed to increase U.S. agricultural exports, and represent a substantial budgetary commitment, should be included in any governmentwide export promotion plan, and unified budget.

2.
FAS ASSIGNS 80 PERSONNEL TO OVERSEAS POSTS. BASED ON YOUR REVIEWS DOES THE GEOGRAPHICAL ASSIGNMENT COINCIDE WITH THE US AGRICULTURAL TRADE POTENTIAL?

As of April of 1993, FAS had 104 agricultural attaches assigned to 77 posts, in 62 countries around the globe. In addition, FAS employs about 150 full-time foreign service national (FSN) employees, and about the same number of contract employees overseas. Many of the FSN employees, and about 1/3 of the contract employees, work as professional staff at FAS posts. With that number of overseas posts and the level of staffing, the geographical placement generally coincides with markets having significant potential for U.S. exports.

Nevertheless, FAS needs to re-evaluate how its overseas staff resources are used in order to enhance their contribution to increasing U.S. exports. For example, over a third of FAS

attache time is spent on agriculture reporting. However, much of it is of limited value. Therefore, existing attache resources could be shifted from reporting tasks to more proactive market development activities which could contribute more to increasing U.S. agricultural exports.

3.
IN YOUR OPINION, WHAT IS THE MOST EFFICIENT AND EFFECTIVE WAY TO INCREASE U.S. AGRICULTURAL EXPORTS? WHICH OF THE FAS PROGRAMS WORK BEST?

The best way to increase U.S. agricultural exports is to have a competitive agricultural sector committed to the international market. Such an industry will be positioned to export to promising markets and take the greatest advantage from any trade policy initiatives that reduce foreign barriers to U.S. exports.

An agriculture program that has a market orientation at its core -- rather than a program that is production oriented -- will enhance the international competitiveness of the U.S. agriculture sector and support increased U.S. agricultural exports. Such a program would be centered around the linking of agricultural production to existing markets. This differs from the current approach which focuses on production first, and then attempts to find markets after the fact for surplus production.

Within the context of a market oriented agriculture program, FAS assistance to exporters would still be needed. However, the nature of some of the assistance might change. For example, timely, high quality trade leads and customer focused market intelligence would take on greater importance.

However, short of a radical change in the orientation of U.S. agriculture programs, USDA export programs can be more effective and efficient if they embody certain design features. These include: 1) program elements to promote additionality, i.e., ensuring that government assistance results in promotional activity that would not take place in the absence of government funding; 2) a graduation requirement, which would phase-out government assistance to program beneficiaries after a fixed time period; 3) that government export assistance is provided to competitive private sector participants, who otherwise would be unable to start exporting because of the risk, complexity, or difficulty in securing resources to cover start up costs; 4) provision of monetary assistance on a success conditional basis so that successful exporters who have benefitted from government subventions could help finance a revolving export assistance fund; and 5) that USDA establish a rigorous program evaluation effort to measure program effectiveness and to help guide future program development.

Independent of government programs, U.S. companies must address the challenges of a changing and globalized agricultural trade environment. GAO has found that U.S. companies engaged in overseas trade often lack a strong commitment to exporting, and many lack an export strategy altogether. Specifically, many U.S. exporters do not conduct adequate market research, adjust products to specific markets, establish a local presence in overseas markets, develop an overseas promotion plan, or provide post-trade servicing to their overseas customers.[1]

4.
DOES FAS DO ENOUGH TO PROMOTE THE EXPORT OF HIGH VALUE AGRICULTURAL PRODUCTS? IF NOT, WHAT SHOULD BE DONE TO CORRECT THIS? ARE THERE ANY PROVISIONS IN THE LAWS THAT RESTRICT HIGH VALUE EXPORTS?

In recent testimony and reports, GAO has highlighted the importance of HVPs as the fastest growing segment of world agricultural trade. We have also stated that the promotion of HVP exports should be based on an overall agricultural trade strategy, that is itself part of a governmentwide export promotion plan. However, the USDA's Long-term-Agricultural Trade Strategy has not proved to be a useful management tool to help determine the USDA's efforts to promote HVPs. Furthermore, the TPCC's governmentwide export promotion strategy has very little in the way of discussion on how to improve USDA's export assistance efforts.

We believe that more can be done to promote HVPs. While USDA provides a variety of credit and subsidy programs for buyers and sellers of U.S. agricultural commodities, and these programs are available to exporters or HVPs, USDA has traditionally emphasized servicing bulk commodities. While USDA introduced new programs in the 1980s, some of which support the exporting of HVPs, as a congressional report stated, USDA has not provided the marketing leadership needed to help U.S. agribusiness better compete in export markets.

USDA can do a better job of promoting HVPs exports. Central to this effort is the recognition that support for HVPs requires a re-orientation of FAS towards the different needs of HVP exporters. For example, we stated in a recent report[2] that markets in Taiwan, Malaysia, and Indonesia, hold good potential

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[1]HIGH-VALUE PRODUCT EXPORTS: Good Potential Exists for More Trade With Taiwan, Malaysia, and Indonesia (GAO/GGD-94-52, Nov. 19, 1993.)

[2]HIGH-VALUE PRODUCT EXPORTS.

for increased imports of agricultural HVPs. However, U.S. HVP exporters believe that FAS could provide better information and other assistance which would help them improve access to the markets. Furthermore, we also noted that U.S. HVP producers needed to be more committed to exporting and FAS could play an important role in educating producers on what it takes to successfully export.

QUESTION: FAS personnel are assigned to 80 overseas posts, covering 100 countries. What is the geographical distribution of the personnel? How many are assigned to Europe? To the Pacific Rim countries? To Latin America? Does the assignment of the personnel reflect the potential for U.S. agricultural exports?

ANSWER: FAS personnel are now assigned to 79 overseas posts, covering more than 130 countries. The following table shows the regional distribution.

REGIONAL DISTRIBUTION OF FAS PERSONNEL OVERSEAS

REGION	AMERICAN	FOREIGN NATIONALS	TOTAL
EUROPE	44	56	100
Western	35	45	80
Eastern	9	11	20
ASIA	33	43	76
Pacific Rim	30	35	65
Other	3	8	11
WESTERN HEMISPHERE	21	35	56
Latin America	19	32	51
Other	2	3	5
AFRICA AND MIDDLE EAST	14	20	34
TOTAL FAS PERSONNEL OVERSEAS	112	154	266

FAS overseas staffing is under continuing review. A shift has been occurring during the past decade with fewer staff numbers in Western Europe and increasing numbers elsewhere, primarily in the Pacific Rim, as marketing opportunities and trade of U.S. agricultural goods expand in the Asian region. Staff increases have also occurred in Eastern Europe to take advantage of trade opportunities caused by changing political conditions.

USDA/FAS/FAA 11/22/93

SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER

Question 2

What is the process FAS will use to determine whether Russia meets the creditworthiness requirements for the credit guarantee programs? Who participates in the decision and what information is used to make the decision?

Response

USDA follows the same procedures for all countries to determine credit worthiness for participation in USDA's Export Credit Guarantee Program. The Foreign Agricultural Service's (FAS) Program Development Division (PDD) develops program allocations for the Export Credit Guarantee Programs (GSM 102 and 103) using input from three sources -- the Trade and Economic Division (TEID) of FAS, the Commodity Marketing and Programs (C&MP) area of FAS and the Financial Management Division (FMD) of the Agricultural Stabilization and Conservation Service (ASCS).

TEID provides classified country risk assessments, which rate a country's ability to repay existing and future short-to medium term debt obligations. The assessments provide reports on five risk categories (macroeconomic environment, balance of payments situation, liquidity, foreign debt burden, debt repayment history) for each participating country and offer annual risk exposure guideline recommendations.

FMD provides assessments of foreign banks. The bank assessments determine which banks are eligible to participate in the GSM programs and set limits for the risk exposure to CCC for each bank. These bank limits may be waived if the foreign government is willing to provide a Credit Guarantee Assurance (CGA) letter to repay defaults of any eligible bank.

Top officials of PDD, TEID, C&MP, FMD and other senior officials within FAS sit on a committee known as the Reconciliation Committee (RC). The RC is charged with reaching a consensus on the appropriate level of programming for potential country participants according to sovereign and bank risk considerations and market development opportunities. The committee is chaired by the Assistant Administrator of the Export Credits Program Area. If a consensus is reached within the RC, the recommendation is presented to an interagency committee, the National Advisory Council on International Monetary and Financial Policy (NAC), which must review all GSM-102 and GSM 103 programming decisions.

The NAC is made up of representatives from the Treasury Department, State Department, Commerce Department, Federal Reserve, U.S. Trade Representative, Eximbank and A.I.D.

Following NAC review, a public announcement is made which provides information on the total amount of guaranteed credit as well as the credit lines for individual commodities. If consensus cannot be reached in the RC, a decision memorandum is prepared. Depending on the size of the proposed program, the risk grade and the percentage by which the recommendation exceeds the annual exposure guideline, the decision memo is forwarded to various decision-making levels. In ascending order they are the the General Sales Manager, the Administrator of FAS, the Administrator or ASCS (who is Executive Vice President of CCC) and the Under Secretary for International Affairs and Commodity Programs (who is President of CCC) for their decision.

According to FAS policy, a country program is suspended as a result of any missed interest or principal payment. Should a country undergo a rescheduling of debt at the Paris Club, and in the event of a bilateral agreement, USDA can consider the country for a new program.

The United States and Russia have recently signed a bilateral agreement which call for the payment of approximatley $450 million by December 31, 1993. Should the Russians repay this amount, USDA could consider a new GSM program for Russia, although it is under no obligation to announce one.

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QUESTIONS FROM THE SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER
REVIEW OF THE MISSION FOR THE FOREIGN AGRICULTURAL SERVICE

QUESTION: How does FAS determine which companies are eligible for funding under the Market Promotion Program? There are always more applications than money. Now with MPP reduced even further, the decisions could be even more difficult.

ANSWER: Private companies may apply for participation in the Market Promotion Program (MPP) through one of three types of programs:

1. Non-profit trade associations - administer programs for U.S. and foreign companies;
2. Regional - administered by the four state regional trade groups, targeting small, new-to-export, and economically disadvantaged companies; and
3. Export Incentive Program - administered directly by FAS for industries where no appropriate trade organization exists.

FAS determines which MPP applicants are eligible based upon criteria published in the Federal Register including: adequacy of the strategic plan and promotion objectives, ability to provide its own resources and staff to conduct overseas promotions, evidence of the applicant's program management capabilities, adequacy of the applicant's provisions for monitoring and evaluating activities in the proposed plan, and a detailed explanation of the prospects for success of the proposed activities. FAS reviews each applicant's activity plan, and in turn, approves specific budgets based upon the proposals. Additionally, based upon the provisions of the Omnibus Budget Reconciliation Act of 1993, FAS will give priority consideration for funding small-sized entities determined on the basis of Small Business Administration criteria.

QUESTION: What is the process used by FAS for determining eligibility for the Export Enhancement Program (EEP)? Who participates in the decisions and how are countries and commodities selected for EEP?

ANSWER: FAS continually reviews proposals for country/commodity EEP initiatives. Proposed initiatives that meet the program criteria and the approval of the Under Secretary for International Affairs and Commodity Programs and the TPRG are announced by USDA. (Agencies represented in the TPRG include the Council of Economic Advisors, Department of Commerce, Department of State, Department of the Treasury, National Security Council, Office of Management and Budget, and Office of the U.S. Trade Representative.) According to the criteria published in the Federal Register on June 7, 1991, all EEP initiatives must: further the U.S. trade policy negotiating strategy of countering competitors' subsidies and other unfair trade practices by displacing such countries' subsidized exports in targeted countries; demonstrate the potential to develop, expand, or maintain markets for U.S. agricultural commodities; not have more than a minimal effect on non-subsidizing exporters of agricultural products; and have expected benefits which exceed the expected costs of the initiative.

THE ROLE OF THE USDA IN TRADE NEGOTIATIONS

USDA has been heavily involved in trade negotiations, including NAFTA and the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT). Working closely with the Office of the U.S. Trade Representative (USTR), USDA has taken the lead in negotiating GATT and NAFTA agreements on agriculture. The role of the USDA has not changed under the Clinton Administration, which has placed a high priority on reaching fair and workable trade agreements for U.S. agriculture.

FAS/ITP/MTPAD: 11/21/93

QUESTION: What changes, if any, can be expected as a result of the recommendations of the Trade Promotion Coordinating Committee for a unified budget for all federal government export promotion programs? Which programs are affected by this recommendation?

ANSWER: The Export Enhancement Act of 1992 requires the TPCC to create a "unified budget" for export promotion for the federal government that will be consistent with priorities established by the TPCC export promotion strategy. The unified budget (FY1995 target) is to be achieved through an inter-agency resource allocation process, with key roles for the National Economic Council, Office of Management and Budget and the TPCC.

The TPCC continues to wrestle with the definition of export promotion, to complete an analysis of current expenditures of U.S. export promotion efforts, and to determine the role of performance measures in the allocation process.

There is some confusion concerning the amount of Department funding for export promotion, particularly in relation to funding availabilities for the rest of the Executive Branch of Government. In particular, the General Accounting Office's January 10, 1992 report (GAO/NSIAD-92-49) is somewhat misleading in stipulating that 80 percent of the Federal Government's export promotion funding is spent through an agency, the Department of Agriculture, which only represents 10 percent of U.S. exports of foods and manufactures.

In point of fact, about 80 percent of the "promotional funding" cited in this report is not what would normally be considered promotional, but rather, consists of food aid, price subsidies and credit assistance. The latter, while intended to assist exports of U.S. farm products, are not generally aimed at promoting overseas demand for U.S. farm products. USDA's export promotion efforts are conducted primarily under the Market Promotion Program (MPP) and the Foreign Market Development Program (FMD), which in Fiscal Year 1993 were together funded at about $185 million. In other words, the Department's true level of promotional funding as a percentage of total Federal Government export promotion funding is much less than the 80 percent cited in GAO's report.

The USDA strongly supports the coordination and streamlining of export services and programs, but this must be done in a manner which takes into consideration domestic and international program objectives designed by Congress. The USDA does not support the inclusion of performance measures as the sole means to determine aggregate allocations of federal promotional funds among competing export interests or programs. Level of funding should be done on a sector basis, which supports domestic economic policy, notes the relative importance of exports to the sector, and the barriers to trade for each sector (trade policy issues). The TPCC must define "export promotion". In addition, no consideration is made of the mandatory, versus discretionary funding nature of some of USDA's programs. Any consideration of budget must be done with consideration of the unique situation of each particular sector. The importance of export programs to Agriculture is unique. Aspects of USDA's export programs are interlocked with domestic programs and our trade negotiations. Until such time as the above issues are addressed we cannot correctly gauge the impact on the USDA budget nor affect on select programs.

QUESTION FROM HON. COMBEST:

ISSUE:

The Texas Cotton Association has raised a issue concerning the GSM program and entry certificates for exports to Mexico. USDA has stated that entry certificates are required to assure that the commodity was actually exported before disbursing federal funds. However, this does not address the Texas Cotton Association's problem that in Mexico the entry certificate is issued only after the commodity has entered Mexico. Therefore, exporters lose control of the commodity exported before the exporter receives all the documents necessary to receive payment. If an entry certificate is never issued, the exporter runs the risk of nonpayment although all terms of the letter of credit have been met.

QUESTION:

What advice can you give to the members of the Texas Cotton Association to remedy this problem?

ANSWER:

It is not a GSM-102/103 program requirement that the entry certificate be submitted in order for the U.S. bank to pay the exporter. However, for shipments by rail or truck, in order to file a claim on CCC, the bank must submit to CCC a copy of the entry certificate. Thus, it is understandable that the U.S. bank may require the certificate, or other arrangements to protect its financial interests, before paying the exporter.

It is our understanding that the official Mexican entry certificate ("Pedimento") can normally be obtained promptly (within a few days) if the services of a qualified Mexican customs agent are utilized (some U.S. agents have standing arrangements with Mexican counterparts). We also understand that another technique to ensure prompt payment by the U.S. bank is for U.S. exporters to provide the U.S. bank with a letter of indemnity. This letter may be used in the event the exporter fails to provide the entry certificate at the time a default occurs and the bank must claim on CCC.

While it would be inappropriate for CCC to advise exporters how they might best deal with this question, I hope that these observations may be of interest.

In general, I would observe that we have not had many complaints from exporters about payment problems relating to the entry certificate issue. If the Texas Cotton Association has specific recommendations concerning CCC program regulations, we would be pleased to receive them.

FAS/EC/CCCOD/Robert Simpson/lw/720-6211/11-29-93

cc: Goldthwait, Whiteman, McElvain, Hawkins, Chewning

Mr. CONDIT. We absolutely understand that. Thank you, Mr. Allard.

Mrs. Thurman.

Mrs. THURMAN. Mr. Goldthwait, in your testimony you talk about the three areas that you are concerned about or are trying to look at. And one of them you specifically spell out is rebuilding bulk commodity markets. What disturbs me a little bit is that there is not much discussion about the high-value products and like our specialty crops, vegetables, fruits, those kinds of things which, of course, are very important to the Florida exporters, and we have done much of the stuff on our own.

I would like both of you to tell us what we can be doing or why that is not being emphasized by the Department and specifically because you continue to talk about NAFTA, our folks in Florida seem to think that has a negative effect on them. So it seems like we need to be looking for other ways to give them some opportunities in this new world.

Mr. GOLDTHWAIT. We are, in fact, putting quite an emphasis on the marketing of the high-value commodities, including specifically, horticultural products. There the approach has to be a little different because these products have some very specific barriers that they are encountering in most of the growth markets for them. For example, on an almost daily basis, as you are undoubtedly aware, we encounter trade barriers on a bilateral base, which is a number of the future potential markets, including those in the Far East. So we have to take a kind of a two-tiered approach.

First of all, we have to be very vigilant in combating those barriers every time we encounter them. And then second, and I think you will see this reflected in our various program allocations, we need to put promotion resources into those efforts as well.

I did, of course, mention the bulk commodities because that is a very important area of our overall agricultural exports, but we are increasingly focusing on the high-value commodities that you mentioned.

Mr. MENDELOWITZ. Our assessment of the agency's programs overall is that USDA has rarely employed strategic marketing in its programs. When we say "strategic marketing," what we are talking about is a range of practices and programs that are designed to identify consumer needs and preferences, develop products to meet those needs and preferences, and to develop distribution systems to see that the products get to market.

The emphasis of the agency's programs for the entire postwar period has been primarily directed at production, i.e., improving efficiency and improving output. The export programs that have been employed have primarily been appended to this production-oriented focus of the Department. That is, once the products are produced, we then try to find ways of exporting them or finding markets for them.

We believe that at the strategic thinking level what is needed is an approach to agriculture that starts out by identifying potential markets and then winds up with deciding what to produce and deliver, rather than an approach that starts out with producing the products and then trying to find markets for them. What we think

should be done at the most strategic level goes to the issue that you raised with respect to HVP's.

If you look at trade statistics—and we issued a report to Mr. Penny earlier this year that discussed how important HVP's are in terms of both U.S. exports and world exports—we identified that HVP's are really the growth area for agricultural exports. They have been for some decades a constantly rising share of world agricultural trade.

As world income rises, demand for consumer-ready and other HVP's will definitely grow. And we believe in order to make good use of its resources, the Department needs to step back and take a whole new approach, namely, a strategic marketing approach which will affect both the programs to assist production and the programs to assist exports that the Department manages.

Mrs. THURMAN. Mr. Mendelowitz, I wasn't here, but it is my understanding that you reported to the subcommittee in 1992 that there were some problems in the management of the FAS trade shows. Have there been improvements in these areas?

Mr. MENDELOWITZ. My associate, Mr. Thomas, tells me there have been some improvements but there is still opportunity for more.

Mrs. THURMAN. Mr. Goldthwait, the reason I bring this up is that the Florida Agriculture Department started a promotional program, have been working with the trade shows and different things of that nature; actually, came to the legislature and received some funds. But now, quite honestly, have no funds in the State budget and have been doing it privately, in several different languages and different things of that nature.

I just wonder if you have looked at that program and is there a way maybe to possibly implement some of that, or at least put together some working groups to find out how they are doing and what they are doing and expanding some of these trade shows so that we can make sure that these products and commodities are looked at?

Mr. GOLDTHWAIT. I am not familiar with the specifics of the work that has been done by the State of Florida.

Mrs. THURMAN. You need to look at it. It is really good.

Mr. GOLDTHWAIT. We will do that. The general direction of our trade shows, I think, has been toward one of improvement, both in terms of the effectiveness and in terms of the cost efficiency. For example, in the past 2 or 3 years, we have gone to the point where we are recovering instead of 40 or 50 percent of the cost of these trade shows, 80 or 90 percent in terms of the willingness of the participants to pay the cost and use their own money in order to participate.

Let me ask if Mr. Mackie happens to know better than I the specifics of the Florida program and will he want to comment.

Mr. MACKIE. No, I do not.

Mr. GOLDTHWAIT. I apologize for that, and we will certainly look into that and provide some feedback.

Mrs. THURMAN. Well, hopefully, we will have an opportunity to sit down and discuss this further.

Thank you.

Mr. CONDIT. Ms. Woolsey.

Ms. WOOLSEY. Thank you, Mr. Chairman. I apologize for being late. I was just sitting here thinking that the mayor of my town, when I was on the city council, used to call me the "late Ms. Woolsey." He would have been furious at my schedule around here, because I never manage to be anyplace on time. For example, right now I should also be at the budget hearing with Representatives Penny and Kasich keeping them on the hot seat.

I am here today because this hearing is very important. I have reviewed the testimony and I do have some specific questions that relate to my district

I appreciate your being here. The district I represent is the Sixth Congressional District in California, Marin and Sonoma Counties. We have a thriving wine and wine-grape industry. The market promotion program, which is one of the FAS export promotion programs, plays a very important role in the success of the vintners and the growers in Sonoma and Marin.

Earlier this year, Chairman Condit came out to my district and we had a congressional hearing in Sonoma County on the USDA's role in the wine industry and how the USDA could better play that role. On the issue of trade, a number of the witnesses who were either vintners or growers testified that they found the market promotion program to be extremely beneficial to the wine industry.

One of the issues discussed at the hearing in my district on the wine industry was whether a wine desk could be established at the USDA. Many members of the wine and winegrape industry would really like the USDA to embrace them more fully by establishing a wine desk. However, the USDA has not responded favorably to this idea. I would like to know what you think of establishing a wine desk. Is this a possibility?

What do I need to do, what do they need to do and what do you need to do to make it happen?

Mr. GOLDTHWAIT. Well, it is essentially, I believe, a question of resources. And as wine has become an emphasis in our MPP efforts, as it has become a more important U.S. export, of course we have increased the amount of time that our analysts and our promotion personnel devote to it. I can't honestly say, at this point, that I think we will have the resources to establish a separate wine desk simply because our folks are already very much stretched.

But we do, I am sure, in terms of the overall effort that we devote, occupy the time of at least a couple of our staff. If you summarize the contributions of all of them on wine, I don't think we are at all neglecting wine.

Ms. WOOLSEY. Would there be a chance that the High–Value Product Services Division could further address the needs and concerns of the vintners and growers? Grapes are one of the ten highest agricultural commodities in this Nation. People just don't realize that. I believe the USDA needs to recognize how valuable the wine and winegrape industry is by addressing their concerns.

Mr. GOLDTHWAIT. We will certainly do everything we can to be in very close contact with the industry. I think we have by and large succeeded in having a very solid contact with the wine industry. We want that to continue, obviously, and if that means devoting some additional time and attention, we will certainly try to do that.

Ms. WOOLSEY. My other question is about the FAS agricultural trade shows. I believe that trade shows could be very beneficial to the wine industry. Does the FAS have any plans to do outreach to the wine industry in order to get the industry more involved in these trade shows?

Mr. GOLDTHWAIT. Let me ask Mr. Mackie to comment on that.

Mr. MACKIE. Ms. Woolsey, I believe that the wine industry and specific wineries have been a participant in our trade shows. In addition, they have run specific trade shows on wine tastings themselves, under our programs. In terms of outreach, I think we do the best we can on the outreach question.

For example, working through the regional associations of State departments of agriculture over the last 2 years, we have sponsored and participated in approximately 35 seminars per year for small companies and those who would have an interest in exporting. And some wine firms have been participants in those seminars.

Ms. WOOLSEY. Some of the witnesses at my hearing, the chairman will remember, spoke about this issue indicating that there needs to be additional encouragement for the wine industry to get more involved, particularly the small, less affluent wineries. Therefore, any help you can offer is appreciated.

Mr. GOLDTHWAIT. May I add just one word? One of the focuses that we are trying to achieve in terms of the restructuring we are undertaking in the market promotion program is to better serve the small- and medium-sized companies. So we will pay very close attention to the comments you have made in that regard this morning.

Ms. WOOLSEY. Good.

Thank you very much.

Mr. CONDIT. Thank you very much, Ms. Woolsey.

There are many of us who come from California, as Ms. Woolsey's already indicated, who are concerned about the USDA's treatment of sort of specialty crops. We feel like we don't get a fair shake at the Agriculture Department and I know that the Secretary has committed himself to try to be helpful to that and we appreciate your comments very much.

GAO says that USDA receives 8 percent of promotion funding from only 20 percent of exports. Is GAO referring only to funding of the MPP? If yes, does the USDA agree with these numbers?

Mr. MENDELOWITZ. The numbers that we compiled related to outlays during fiscal year 1991. They included all outlays associated with assisting exports; this goes well beyond MPP funds. For 1991, the share of the outlays that we identified and compiled that were expended by the Agriculture Department were about 74 percent. And in that year, agricultural exports represented about 10 percent of U.S. exports.

Mr. CONDIT. Mr. Goldthwait.

Mr. GOLDTHWAIT. Yes, my comment would be I think the money is being extremely well spent. If you look at our success in achieving year, after year, after year a positive trade balance in agriculture, I think you will see some good return on that. I would also point out that there is very direct correlation or, I should say, a very direct inverse correlation between our success in moving prod-

ucts under our agricultural export programs and outlays under domestic programs.

Mr. CONDIT. Mr. Goldthwait, I am also interested in the progress in implementing the "Long-Term Trade Strategy." This document was over a year late in being produced. Can you give us some reasons why it was a year late and maybe make some comments about the long-term strategy?

Mr. GOLDTHWAIT. Well, the document was a very difficult one. In point of fact, we started from about two or three different approaches with respect to completing that strategy before we found one that really satisfied us. What resulted was a general umbrella, a general statement of the overall theory behind our promotion efforts and the overall effort in which we want to see them. It is a document that we certainly plan to review from time to time. And, indeed, some of the more specific things that I have said this morning about the direction in which we want to see our promotions programs go, I think show that we have some very clear ideas about what we want to do next and the overall direction in which we want to see our strategic focus of all the programs proceed.

Mr. CONDIT. I think, Mr. Mendelowitz, you might want to comment on this. You stated more specifics are needed in the Department plans on "Long-Term Trade Strategy." Could you give us some specifics on what should be contained in this document?

Mr. MENDELOWITZ. Well, let me give you an example from the non-USDA programs included in the TPCC strategic plan, which I believe highlights the way we need to go about looking at these programs.

There was an explicit recognition in the TPCC process that there was a problem in the delivery of the export assistance programs that are run by the nonagriculture agencies. The Commerce Department has a network of trained trade counselors in its district offices, but no resources to provide exporters. The Eximbank has resources in the form of loans to support exports, and credit guarantees to support exports, but no field structure for delivering its programs. The Small Business Administration has a large field network, a lot of resources, and programs designed to help exporters. However, the resources and programs weren't being used much because there wasn't much direction in the agency to help exporting and there was little training of the staff to be able to effectively deliver the export programs. The TPCC process confronted this deficiency across the agencies directly, identified the causes of the problem, and came up with, I think, a very creative solution that required no increase in expenditure.

The solution was to meld the programs of three different agencies and deliver them through a series of "one-stop shops" at the local level. Under this initiative, SBA folks in the field and Commerce folks in the field, will be brought together into local offices and they will form unified teams to provide Government assistance to exporters. They will represent and provide jointly the programs of Eximbank, Commerce, and SBA. No comparable assessment of how to improve the programs in the farm area or the agricultural area was either included in the LATS or in the TPCC strategy. And it is that kind of no-holds barred, really open-minded approach that is needed to improve the programs and to make better use of the

tax dollars that the American taxpayer is investing in this important area.

Mr. CONDIT. Mr. Goldthwait, will FAS field structures be affected by reorganization of USDA field structures? Are you taking a look at this?

Mr. GOLDTHWAIT. The restructuring of USDA as it is currently targeted, will not have a direct impact on our field structures. It focuses more on the domestic field structures. However, in the overall climate of budget constraint, we have looked very carefully at our field resources. We have already independently done a good bit of restructuring and a good bit of shifting of personnel into countries where we think they will be more effective in terms of the longer-term market development that we are trying to achieve.

So while we are not directly affected by the reorganization in terms of our overseas offices, we are restructuring as part of an ongoing program of being sure that we have our resources where they are going to be the most effective.

Mr. CONDIT. I am going to yield to Mrs. Thurman.

Mrs. THURMAN. Mr. Goldthwait, let me pose an issue to you that I am very interested in, and Mr. Mendelowitz, as long as I have been here, which is only about 11 months now or whatever. One of the things that has concerned me and I think it does all of us when we are looking at Government, has been the lack of communications between one Department within an agency to another. Let me pose to you something that happened to the Government Operations Committee last week when we talked with EPA and USDA on the issue of ethyl bromide.

It has come to my attention that in some of your foreign markets that unless you fumigate with ethyl bromide that you are not able to take the product there. On the other hand, we are being told that potentially we are going to have to look at the production if they are going to actually reduce the use of ethyl bromide maybe back down to the 1991 times.

How, then, do you as a Department and agency get this information from your part of this of promotion and international trade, to the people that are making the decisions on some of the other—what they are going to use and the pesticides or some of that?

I think that is a very important issue, because one of the things that will send mixed signals to the people that you are most trying to help is that people are not communicating. And I think it has been—I mean, I can't think of a GAO report or an Inspector General's report that I have read that this has not been one of the major issues.

Mr. GOLDTHWAIT. I would comment in a couple of ways. First of all, the channel of communication that currently exists is from our agency through other agencies within the Department that deal directly with EPA and other organizations. And, in fact, we have recently established a separate office within FAS to monitor the kinds of developments and the kinds of problems that you are referring to.

But stepping back from that for a moment, I would say that this is an area where we are going to increasingly face this kind of, if you will, conflict between objectives. And we are going to have to do a better job. I believe you have isolated an area where we do

need to make some improvements. We are going to have to do a better job of looking at what the tradeoffs are, how we can achieve overall objectives both with respect to our trade objectives and our own concerns about residues and this kind of thing domestically.

I would say that I see some very positive potential in this as we try to tackle this problem, because, again, I think one thing that we have not done enough of is promote U.S. products, particularly some of the fruits and vegetables that you are concerned about, as basically safe products in countries that are increasingly concerned themselves about the use of pesticides and this kind of thing. I think we have the potential to make that a positive factor, whereas too often today, it is a negative factor as you have pointed out.

Mrs. THURMAN. So when you have gone through, though, looking at this whole new reorganization chart, can you give me specifically what you have done so that you know that you will have that input?

Mr. GOLDTHWAIT. I can't tell you that today, off the top of my head, but let me provide some information to your office on how we currently envision accommodating this within the Department's reorganization.

Mrs. THURMAN. Mr. Mendelowitz, can you give me some ideas of things that we might be able to tell them today that they may be able to accomplish this?

And if you can't, we will talk later.

Mr. MENDELOWITZ. I will be happy to try to draw up a more detailed response, if you would like to talk about it later. But what you have identified is a problem which exists across the Government, when there are programs that have a narrow focus, but have impacts that spill over into other areas.

You can't fix those problems at the end of the process. The only way to really address these problems in a sensible and minimally disruptive way is to make sure that when the process starts, you try to identify everyone who is going to be impacted, and an effort has to be made from the very beginning to make sure that everyone who is going to be affected is part of the process. Then, as the process proceeds through the final stages, everyone who is going to be impacted as a result of what happens is involved at every step of the way. And that is absolutely critical. Because the truth is, there is simply no way to avoid conflicts because we have programs with goals that are in conflict.

For example, I remember the classic story about the—I don't know if it is apocryphal or not—about the APHIS inspector who visited an abattoir and said the place was pretty good, except there was still some potential for bacterial growth in the floor tiles. The abattoir had to replace the nonslip floor tile with shiny ridge-free tile so that bacteria couldn't develop. And then, after they made the renovations, the OSHA inspector came in and said, well, the place was pretty good, but there was a problem with the floor. When the tile floor gets wet it is too slippery and a worker can slip and fall and be injured, so the abattoir needed to put in nonslip ridged floor tiles.

I am not telling the story to poke fun at anyone, I am telling the story to highlight the problems that arise when there are programs with goals that are in conflict. The only way to make sure that we

come to conclusions in the least disruptive way is to get all the stakeholders involved at the beginning of the process so that unanticipated problems don't crop up at the end. That is, they are dealt with explicitly along the way.

Mrs. THURMAN. I thank both of you and I look forward to some future conversations with you both.

Mr. CONDIT. Mr. Mendelowitz, Mr. Goldthwait, and Mr. Mackie, we appreciate you being here this morning, and the fact that supporting staffs here participated in this hearing, we appreciate that. You have been very kind with your time and we may have some further follow-up questions we would ask you to respond to. But thank you very much.

We will take the next panel.

Mr. Johnson, Mr. Terhaar, Mr. Krajeck, and Mr. Notar.

If you would just remain standing, the subcommittee has a policy of swearing all witnesses in, and since I am chairing at this particular time, we will do that.

Please raise your right hand.

[Witnesses sworn.]

Mr. CONDIT. Let the record indicate they all said yes.

Mr. Johnson is the president of National Pork Producers from Minnesota, and we appreciate him being here today.

Actually, he is from Washington, DC; is that correct?

Mr. JOHNSON. No, I am from Minnesota.

Mr. CONDIT. You are from Minnesota.

We appreciate you being here, we will start off with you.

STATEMENT OF KARL JOHNSON, PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL, ON BEHALF OF THE EXPORT PROCESSING INDUSTRY COALITION

Mr. JOHNSON. Thank you, Mr. Chairman.

I am Karl Johnson, I am a grain farmer and currently serving as president of the National Pork Producers Council, as you indicated. I am appearing this morning on behalf of the Export Processing Industry Coalition. That is an organization comprised of the Corn Refiners Association, the Millers' National Federation, the National Oil Seed Processors Association, and the National Pork Producers Council.

Also, included is the industrial union department of AFL–CIO. This group represents American industries and labor unions that are working together to expand the U.S. share of the growing and economically potent world market for processed and value-added agricultural products.

Unfortunately, the U.S. pork industry is an ideal case for Congress and the administration to look at on the urgent need to create and implement an aggressive trade policy that refocuses our efforts on high-value products and value-added agricultural exports. As you may or may not know, the U.S. pork industry is a low-cost producer across the world. Yet, we export only 2.5 percent of our product.

We also are the second largest importer of pork in the world. You may wonder why this happens. Well, one of the problems is that we are not only dealing with our producer friends across in foreign lands, but we are dealing with very aggressive foreign markets or

foreign governments that help to export products from these other countries.

When you look at Denmark, the Netherlands, they are exporting approximately 80 percent of their product. Canada is exporting 30 percent of their product. Yet, we in the United States only export 2.5 percent.

This really doesn't make much sense when you understand again that we are the low-cost producer. As I stated before, the reason for this is the real aggressive coordination between the producers, exporters, and the governments in other countries.

The Export Processing Industry Coalition has some specific recommendations to refocus U.S. agricultural trade priorities and promotion activities on the dynamic growth of the high-value agricultural product markets. And I would like to go through these specifics, if I could.

The administration must identify the urgent need to increase the U.S. share of world trade in the processed and high-value agricultural products as a key national priority and ask USDA to spearhead a campaign to double the U.S. share of world trade in value-added agricultural products by the year 2000.

The multiplier formulas developed by the Economic Research Service to measure the economic benefits of various agricultural exports must be incorporated into the decisionmaking process for allocating USDA export resources. It is imperative that we measure, compare, and apply the direct and indirect economic benefits of exporting value-added agricultural products when making export policy decisions.

The mission statement of the new International Trade Service Agency must reflect the realities in the global marketplace; emphasizing products where demand is growing and responding to the aggressive growth of competing governments and facilitating exports of these products. These activities should be extended to include competing for the domestic market in the United States for high-value agricultural products.

The current Commodity Division structure of FAS should be complemented by the creation of a World Market Analysis Division. In addition, an Export Coordination Division should be established to facilitate cooperation and support among USDA and non-USDA agencies with responsibility for trade policy and program implementation. Staff and funding for these new units could be drawn from the Agricultural and Trade Analysis Division of ERS.

The Secretary should establish a Government/Industry Task Force on Agricultural Trade to provide a working partnership between USDA and the private sector on export competitiveness. The task force would identify domestic and foreign market opportunities and develop specific strategies for making U.S. products competitive.

I think it is imperative that we get focused on high-value and value-added exports when we look at U.S. agricultural trade. We must address what is needed in the marketplace, global market trades.

I think it was mentioned in the panel before, let's produce and market what our consumers want, not force them to buy what we have.

The other very important thing that happens with value-added is the economic growth in rural America. We are providing jobs, rural development. I think we must look at all these factors when we look at agricultural exports.

Thank you very much.

[The prepared statement of Mr. Johnson appears at the conclusion of the hearing.]

Mrs. THURMAN [assuming chair]. Mr. Terhaar.

STATEMENT OF ALLEN A. TERHAAR, DIRECTOR, FOREIGN OPERATIONS, NATIONAL COTTON COUNCIL OF AMERICA, AND EXECUTIVE DIRECTOR, COTTON COUNCIL INTERNATIONAL

Mr. TERHAAR. Excellent, thank you, Madam Chairman.

Members of the subcommittees, on behalf of the National Cotton Council of America, I appreciate this opportunity very much to testify before you today regarding the USDA's Foreign Agricultural Service.

I was struck when reading the TPCC report entitled, "Toward a National Export Strategy" that U.S. agriculture and FAS already have most of the features called for in the report. As a matter of fact, U.S. agriculture has been doing these things, these very things, and doing them well for many years.

It is why we have a $13 billion positive trade balance in agricultural exports, while U.S. manufactured goods run a $140 billion negative trade balance. It is why other sectors are finally trying to emulate agriculture's successful methods. FAS is the original "one-stop shop" for export market development.

Madam Chairman, in my prepared statement I made some highly positive comments about FAS. I stick by those comments and will not repeat them here.

We are, however, seriously concerned about whether FAS will retain a clear sense of its mission in the future. We are also very concerned whether resources under any reorganization will be devoted to the areas of FAS that have the most impact on sales of U.S. products overseas. That is, the people on the ground in attaché offices abroad, and the programs under the unique public/private sector FAS market development cooperator effort.

We are also concerned that in the spirit of reinventing Government, a lot of changes will be made in FAS without reaching out to the client group that uses its services; the farmers and agribusinesses that rely on FAS to help market their products overseas. In the press release on this hearing, Congressman Allard was quoted as stating: "When FAS was established in 1953, its purpose was to maintain and expand foreign markets for U.S. agricultural products."

This mission statement is very consistent with the current FAS mission statement which reads, quote: "To advance and reinforce the efforts of the private sector to expand exports of U.S. agricultural products." This is a mission statement that is clear, concise, and very close to the original 1953 mission.

We believe the continued focus on a singular mission is in part responsible for FAS's success over the years. It came to my attention last couple of days that there is a draft of a new mission statement being considered at this moment by FAS. It reads, "To ac-

quire information pertaining to agricultural trade, carry out market promotion and development activities, promotion of exports of United States agriculture products, administration of international food assistance programs, and programs relating to international development, technical assistance and training."

Mr. Chairman, if this is to be the new mission of FAS, then I think FAS has lost its mission.

I now would like to address specifically the issues raised in your invitation to testify.

Question: Does the consolidation of OICD and FAS into the International Trade Service improve the system?

Yes, it eliminates duplication and improves the "one-stop shop." However, consolidation will only improve the program management if FAS/OICD can jettison the activities that are clearly not within the mission of enhancing U.S. agricultural exports. These types of activities may comprise as much as 50 percent of the OICD programs.

In contrast, the main international trade service is a bad idea. For 40 years, FAS has used its current name and has strong and clear name recognition in the U.S. agricultural community and overseas. A name change serves no purpose and is detrimental to the mission.

Question: Does FAS have the tools and can the information be easily transmitted?

Yes, FAS has the tools to identify new markets and products. These tools primarily are in two forms. The network of overseas personnel in U.S. embassies and agricultural trade offices, and FAS's close ties with the associations and private companies who deliver the export product.

The problem is that FAS has been squeezed on both these tools. No, FAS is not doing a good enough job of information dissemination in today's high-tech world. I elaborate on this in my written statement.

Question: What aspects of FAS activities are critical to agricultural exports and which programs are expendable?

I would suggest the following list of key FAS activities: Primary data and trade intelligence collection; agricultural trade policy support and advocacy; market development cooperation through the private sector; export financing; and concessional sales programs.

We would suggest at a minimum dropping the following: The large percentage of the commodity publications assembled in FAS Washington; all crop function forecasting not carried out by overseas offices; import quota monitoring; obstructive regulatory procedures, to name a few.

Mr. Chairman, we would further suggest that the current tightness in FAS budgets and regulatory environment in which the agency and its private sector partners are working is forcing the agency to cut back on the very foundation of its success and future export competitiveness. And that is a cutback in personnel on ground overseas, to be the on-the-spot eyes, ears, and proponents of U.S. agricultural products. This trend should be reversed.

Question: Does FAS need to consider new approaches or programs to provide the flexibility and access to developing and emerging markets?

In the experience of National Cotton Council, FAS has been quite flexible. Increasingly, the flexibility is being further stifled by excessive regulation and audit burdens which drain a significant amount of energy and responsiveness from the agency and its private sector partners.

Mr. Chairman, while accountability is clearly necessary with the use of public funds, it is program and not regulations that make sales overseas.

Question: Has the long–term trade strategy been implemented and how do agricultural export programs fit with the National Export Strategy of the TPCC?

FAS is the agency that can be held up as a 40-year successful "one-stop shop" for national export programs for its sector. Regarding the long-term trade strategy as we suggested earlier in my comments, the Government can best serve as a purveyor of information, a facilitator, and a market access advocate for the U.S. private sector, not as a creator of some inflexible grand plan.

Mr. Chairman, the U.S. Government and FAS are being reorganized or even reinvented. In FAS's case, much of its market development work is carried out through the market development cooperators and the private sector participants they represent. To my knowledge, neither the U.S. Agricultural Export Development Council, its members or the private sector companies are actively being consulted by the Department or the agency. If the U.S. Government truly desires a successful National Export Strategy, it cannot hope to do so by leaving the private sector, for example, the people who actually export, out in the cold.

Through public forums, Secretary Espy and his staff did an excellent job of reaching out to the constituency in searching for the appropriate structure and programs for the Farm Service Agency; programs designed to help farm income. We would ask that a similar outreach happen for the structure and mission of FAS; the agency charged with fostering exports, programs that also directly bolster farm incomes and the profitability of our agricultural sector.

For that reason, Mr. Chairman, the National Cotton Council of America and its exporting members greatly appreciate the opportunity to testify before this committee today and have some input into the future of FAS, the "one-stop shop" that facilitates U.S. exports of cotton, its value-added products and the abundance of our entire agricultural sector.

I thank the chairman and members of the committees and would be happy to answer any questions.

[The prepared statement of Mr. Terhaar appears at the conclusion of the hearing.]

Mr. CONDIT [resuming chair]. Thank you very much, Mr. Terhaar.

Next, Mr. Krajeck.

Mr. Krajeck is vice president of the U.S. Feed Grains Council. Welcome.

STATEMENT OF RICHARD KRAJECK, VICE PRESIDENT, U.S. FEED GRAINS COUNCIL

Mr. KRAJECK. Thank you. I thank you for the opportunity for the U.S. Feed Grains Council to present our views on the mission of

the Foreign Agricultural Service. The council is a private nonprofit market development organization that represents the international market interest of the U.S. producers of corn, sorghum, barley, and their by-products, as well as over 70 related agribusinesses.

Our mission is to build profitability for the U.S. feed grains industry through the development and servicing of export markets. As a cooperator with FAS for over 30 years, we have enjoyed a strong working relationship.

I am going to highlight only a few areas of our written testimony which has been submitted.

We believe the fundamental question when examining FAS operations should be, does this program contribute to the profitability of U.S. agriculture through the development and servicing of export markets? FAS programs that contribute to increased profitability should be strengthened while those that do not should be restructured or discontinued.

I would also like to comment on the name of the new organization that has been proposed. We strongly recommend that if the name of FAS has to be changed, and we don't believe that it should be because of that name recognition, that any new name should contain the word "agriculture." In the consolidation of FAS and OICD, we believe that will strengthen the overseas mission of both organizations.

But I would like to note that specific questions were raised earlier in the meeting today about agencies operating at cross purposes. I would specifically like to bring to the attention of the committees that included in any review of agricultural development programs should be the Agency for International Development or AID. There have been countless instances where AID agricultural programs have been counter to U.S. agricultural interests.

Many of those programs have operated in a vacuum and have ignored other Agencies' objectives of increasing agricultural exports and eliminating trade barriers. I have cited specific examples in my written testimony.

With regard to FAS programs, the overseas offices and the assistance of the Agricultural counselors and attachés are certainly critical to the council and the agricultural industry. The reporting component of FAS provides much needed worldwide supply and demand information and it is this information, and related trade leads, that help us target and develop new markets, as well as maintain feed grain exports.

The philosophy of the cooperator program was to bring together the resources of the private and public sector to develop markets for U.S. agricultural products. However, for the past 5 to 8 years, this program has become adversarial, rather than cooperative. The change can almost be directly attributed to the General Accounting Office audits requested by Congress.

In the 40 years of the cooperator program, there has never been a major audit finding against a cooperator or FAS for the mismanagement of funds. However, because of the mistrust created by the GAO audits, we are both forced to significantly increase expenditures to audit the program. And the money spent on those audits and increased recordkeeping mean funds are not available for export expansion activities.

This runaway audit demand has stifled both program creativity and our ability to respond to changing markets. I am not advocating that auditing be eliminated; that would be irresponsible to the U.S. taxpayer. But the fiscal responsibility must be balanced with the excellent record of the program and the need to increase efficiency.

We need FAS to have strong internal controls that everyone understands and implements judiciously. Just that simple change could free up staff time and resources to increase overseas programming.

One of the most effective tools that FAS has for increasing U.S. agricultural exports is the GSM program. But the world economy has changed during the past decade and the GSM program is no longer able to meet all of those challenges. This is especially true in Russia and the Republics of the former Soviet Union. In order to keep a U.S. presence in these markets, we need credit programs that take into account the increased risk and uncertainty.

One action that FAS could immediately take is to return to 100-percent principal guarantees, rather than the current 98 percent, if this is to remain a viable commercial program. If it is decided to take Russia and the former Republics out of the commercial GSM programs, then we need to look at a credit program such as direct loans, using the CCC borrowing authority.

The creditworthiness criteria also needs to be revisited. We understand the need for a review process to determine reasonable levels of credits, but this must be balanced against market development potential and policy objectives.

I also want to note the increasing attention given to value-added products. In our rush toward change, we should not throw the baby out with the bath water. Bulk commodities make up over 65 percent of total exports. With increased competition, we are fighting harder than ever to maintain market share, even in those markets that have been our long-term customers. We must not abandon bulk markets just because value-added markets are currently in the spotlight.

It is clear that the existing FAS export promotion programs are working. In fact, it is their success that is the focus of other Government agencies and industrial groups. The "National Export Strategy" issued by the Trade Promotion Coordinating Committee appears to be an effort to erode agriculture's share of export expansion funds. Funding earmarked by Congress for agricultural export promotion should remain under the control of the Department of Agriculture.

In closing, I would like to reiterate that the philosophy that instituted the cooperation between the public and private sector has been lost and replaced with audits and adversarial relationships. The use of nonprofit organizations like the council, which brings together the diverse interests of corn, sorghum, and barley growers with agribusiness, is a sound practice that maximizes both producer and Government funding. It is a model that deserves the attention of the industrial sector in developing trade.

While we strongly support the review and restructuring of FAS programs, it is evident that FAS cannot meet its mission of contributing to the profitability of U.S. agriculture without the necessary

funding. In countless markets around the world, U.S. agricultural export programs are being out-gunned and out-funded by our competitors. As an example in the former Soviet Union, the European Community is spending around $16 million to promote feed grains exports, while the United States has allocated less than $2 million. Given the tremendous contribution that the export of agricultural commodities makes to farm incomes and the general economy, we must ensure that in any restructuring of FAS, Congress provides the necessary funding for both FAS and its private sector partners to do an effective job.

Thank you.

[The prepared statement of Mr. Krajeck appears at the conclusion of the hearing.]

Mr. CONDIT. Thank you, Mr. Krajeck.

The next witness is Mr. Notar, president and chief executive officer of National Cooperative Business Association.

Thank you for being here, sir.

STATEMENT OF RUSSELL C. NOTAR, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL COOPERATIVE BUSINESS ASSOCIATION

Mr. NOTAR. Thank you, Mr. Chairman.

I do want to thank the chairman and the members of the two subcommittees for this opportunity to appear here today and share with you the perspective and the experiences of the National Cooperative Business Association. We are known as NCBA, relative to the Foreign Agricultural Service.

NCBA is a national, cross-industry membership and trade association, representing cooperatives. Over 100 million Americans are involved in cooperatives and there are 45,000 cooperative businesses in the United States.

For many years, we were known as the Cooperative League of the USA, or CLUSA. In fact, internationally, we are still known as CLUSA in countries all over the world where NCBA promotes and supports cooperatives through training and technical assistance programs.

We operate overseas through our international development division which has an annual revenue volume of about $8 million in programs and through CBI, which is known as Cooperative Business International, (CBI) our for-profit trading company.

We pursue international cooperative development by successfully negotiating partnerships with the U.S. Agency for International Development, and other donors. Cooperatives are demonstrations of democracy in action. But they are run as businesses, meeting an economic need and result in improved incomes for their members. And they are examples of sustainable development, development that continues after a project is completed and donor funds have been depleted.

CBI, which was established by NCBA in 1984, is an international business company that promotes trade and investment between developing country cooperatives, and U.S. cooperatives and other businesses. CBI has generated over $150 million in sales and has produced 6,000 jobs in developing countries.

CBI has had particular success in Indonesia, India, and the Philippines. Recently, CBI established the American Cooperative Enterprise Center, the ACE Center, in Prague to help the cooperatives of Eastern and Central Europe develop joint venture activities, and make a smooth transition to a free market economy.

In the last year, NCBA has opened an office in Tver, in Russia, thanks to a section 416 monetization grant of feed wheat, the sales of which have provided us with working capital in Russia to promote market development and food distribution systems there. That office is manned by CBI.

We strongly support such monetization programs because we feel they go the furthest in allowing us to create markets that will promote local development while creating new business opportunities for American interests.

America's cooperatives are proud of what we have been able to accomplish internationally and they have dedicated considerable resources, both financial and personal, to that end. But much of what we have been able to accomplish would not have been possible without the support of the Federal Government, and particularly the international programs of USDA and AID.

The Foreign Agricultural Service with its relatively new authority over the Food for Progress program in section 416, has been very helpful. We believe, however, that USDA can better assist our international trade and development efforts by focusing in on developing markets for value-added products. We need a strong FAS to help us market those products overseas.

Thus, NCBA supports Secretary Espy's proposal to merge the Office of International Cooperation and Development with FAS in the new International Trade Service Agency. We are particularly pleased to see this new agency grouped with the Farm Service Agency with both units reporting to the Under Secretary for Farm and International Trade Services, Mr. Eugene Moos.

Having the existing functions of the Agricultural Stabilization and Conservation Service, the General Sales Manager, and the Commodity Credit Corporation, and the Foreign Agricultural Service all reporting to one Under Secretary, makes tremendous sense to us. This new grouping of focused activities will facilitate coordination for overseas programs based upon American commodities.

The overseas agricultural development expertise of OICD ought to combine well with the market-oriented approach to FAS. On the program side, this should beef up the capabilities of USDA to utilize the programs already on the books more effectively. It also presents an opportunity to update rules and regulations, to focus on the synthesizing of work in terms of how these programs are packaged and delivered.

This new merger should offer another opportunity for rethinking what works and what doesn't and to put the emphasis on programs that act as a catalyst and facilitator for American cooperatives and farm organizations to develop markets, establish business links, and become partners in economic development activity. Not because it is a Government program established to do good, but because it enables cooperatives and businesses to help one another become better partners in establishing strong markets for the fu-

ture. Strong markets equate to more and better jobs in the United States.

It is our hope that the new International Trade Service Agency will provide a stronger organization structure to achieve these ends. American cooperatives stand ready to help make USDA's international programs achieve their development goals. NCBA and its member cooperatives are thinking globally. We must think globally and we welcome the support of USDA in our efforts to take a global approach. It is no longer a question of taking advantage of opportunities. It has become a matter of necessity if we are to continue to sustain our leadership position in the world.

Thank you.

[The prepared statement of Mr. Notar appears at the conclusion of the hearing.]

Mrs. THURMAN [assuming chair]. Thank you.

Mr. Terhaar, I first want to say that I wish that you would have—I have lost it, the quote that you have in here from the manufacturing matters. I couldn't agree more and I think it is something that has actually been lost in a lot of the debate with agriculture, as to the innovation and the technology that has been advanced by agriculture.

Just as a statement, I will tell you that is one of my biggest fears other than the issues of jobs and stuff, is with NAFTA, as it relates to Florida agriculture, because we have certainly many things going on in the State of Florida that I think are very innovative and certainly passing on a lot of technology to some Third World countries as well. And I am afraid if we lose that industry in Florida, we have lost much of this kind of stuff that you mention here. So it is a big issue for me.

But anyway, we have some questions that we would kind of like to go through. And the first one is really for all of you.

As you are well aware, the FAS is in the process of undertaking a major reorganization. I would like to know if you are satisfied with the level of input you have had in this process. And it goes to all of you, so whoever wants to go first. Mr. Johnson.

Mr. JOHNSON. I think that we have been appreciative of the input we have been able to get in. We have a meeting set up with Secretary Moos next week, to talk about some of the issues that we have brought forward. We also thank you for being involved in this process. We hope that we are being listened to and are always willing to give as much help as we can with input. So yes, we have had the opportunity and are always welcome or would always welcome the chance to have more opportunity.

Mrs. THURMAN. OK.

Mr. Krajeck.

Mr. KRAJECK. I don't think that we have been involved in the process at all, that if we have had opportunity for comments, that it has been after the fact, and that we would in fact welcome greater opportunities to understand the overall direction and to help in determining what would benefit, not just the U.S. feed grain producers, but all of agriculture, as FAS looks to new directions.

Mrs. THURMAN. So you are not very pleased with it then?

Mr. KRAJECK. No.

Mrs. THURMAN. Can you give me some examples, maybe, of where they have asked for your input afterwards that you might have had a positive effect on the decisionmaking?

Mr. KRAJECK. I think that it is even difficult right now to come up with those examples. I am aware that only yesterday, I think, that very briefly the president of our organization was called over to USDA for some review, but I don't think in terms of any ongoing changes that we have participated in those.

Mrs. THURMAN. Mr. Notar.

Mr. NOTAR. Thank you for the question.

We have felt, particularly recently, that the FAS has really been reaching out to NCBA and cooperatives. Under Secretary Moos, Assistant Secretary Brandstool, Deputy Secretary Rominger, have all given us of their time and we have been able to talk with them frequently.

We see FAS as a partner in being able to extend and talk about the needs of cooperatives and their gloom view. And USDA and the FAS have been very helpful in recent months to help us sort out some of those needs. We see FAS as an information source, as a catalyst, to help us and U.S. cooperatives with their strategic planning and strategic view. And FAS, as that information resource, and with that accessibility, particularly recently, has been very helpful to us.

Mrs. THURMAN. So you think you have had some part in the reorganization?

Mr. NOTAR. We feel that we have had input to it.

Mrs. THURMAN. Can you point to any particulars?

Mr. NOTAR. We have, for example, had our programs in Indonesia, which has been a very significant program, using the FAS. Indonesia has now from a base of zero, 33,000 people working in cooperative efforts in various types of agriculture. And FAS programs in Indonesia have helped us get started.

We are looking to extend those programs there and we have had a very able and listening ear with the FAS as we look ahead to those programs in Indonesia. So that is just one example.

Mrs. THURMAN. OK.

Mr. Terhaar.

Mr. TERHAAR. Madam Chairman, I guess you are going to get a very mixed review. I would agree with Mr. Krajeck that we have not had the desired input. As a matter of fact, I was involved in that meeting yesterday that he mentioned. It was a very good meeting with Mr. O'Meara, Mr. Vickers, and Mr. Patrice, but it was backwards in that it was the group of private sector people calling the meeting to provide input to a reorganization chart for FAS that we happened to have. That is not the type of outreach that I think is necessary if we are going to have the primary client group. And again, I think I mentioned that is the private sector that FAS is supposed to be assisting in exporting its products, have input into this process of reorganization, reinventing Government.

There used to be much closer ties between FAS and the private sector, I think, through the market development cooperators, through interaction with them and their members. That has seriously decreased within the last 4 to 5 years.

Mrs. THURMAN. So you would like to have a little more input?

Mr. TERHAAR. A bunch more.

Again, Madam Chairman, the outreach that Secretary Espy and his staff did on the Farm Service Agency, I think is something to hold up as a goal for how all of the different agencies should be reaching out to the people who are their client group and who use their programs.

Mrs. THURMAN. OK. Mr. Notar, do you have any specific recommendations for getting small and new export business involved in agricultural exporting?

Mr. NOTAR. I guess my recommendations, Madam Chairman, would reflect on our experience. We feel that cooperatives, and particularly starting and working at the grassroots, must work with organizations such as USDA and the FAS in partnership. Another example, we have started what we called in our remarks the American Cooperative Enterprise Center in Prague.

We have involved our members financially, 10 members of NCBA put up funds in addition to their dues and other support to start that office. We have been working with USDA, with the U.S. AID, and other Government organizations, the Eximbank and others, to begin to investigate and use the research and information of the U.S. Government and our members to start programs there.

We have a biotechnical program started in Konin, Poland. We have what we call a Pecus project which involves nutritive and feed additive programs in Hungary, and we have what we are calling a Coshop, an opportunity for United States cooperatives to market their products in Prague.

I think these examples emphasize that we need that partnership. We, American cooperatives, need the partnership with USDA and with other governmental agencies in order to start a grassroots market development approach wherever we are.

The two examples I have cited, point to a partnership approach. It has had a stop and start kind of activity. But I think the real emphasis here is that working as a partner with the U.S. Government and our cooperative members has produced results.

Mrs. THURMAN. Do any of the other witnesses like to comment on this question?

Mr. KRAJECK. We have been working with a number of organizations, with businesses, to help them put their products overseas. In particular, identify preserved grains, like specialized grains that would be high in oil or high in starch, we have identified markets where those grains may be particularly important to a user and have brought together the producer of those grains as well as the users in markets such as in Japan or in Mexico.

We have done that in barley, of barley malt, malt exports to the world have been extremely low from the United States. We have been working with the malt industry to help them increase their exports, and have been very successful, but also thanks to the United States' EEP program. So that would be two examples of where we are working to get more businesses into foreign markets.

Mrs. THURMAN. Mr. Johnson.

Mr. JOHNSON. No, I don't have any specific examples to cite, other than I think that when we talked about the points we made, developing a task force between Government and the private sector, to look at the opportunities that are out there, I think this task

force is necessary because that marketplace is changing and changing very rapidly. And when you look at the meat sector, there are some multipliers that could involve with specialty products that need their input put in.

Mrs. THURMAN. Actually, I think we have a man in Florida by the name of Leroy Baldwin who has been doing some stuff in China with cattle on his own, as a private businessman, and has actually gone over there to do some things—which I am very impressed with.

Mr. Terhaar.

And I know that I have missed some of the testimony, so if you have answered this in your testimony, forgive me for doing this to you.

Mr. TERHAAR. Just a quick comment on that. Cotton Council International, which is the development, market development arm of National Cotton Council, is redoubling its efforts on the U.S. value-added product exports of cotton. Those are yarns, fabrics, finished apparel. Within that there is, we think, some opportunity for those specialty items such as organic cotton, for instance, or naturally colored cotton. And, indeed, there is interest in specific markets overseas.

So yes, there are those opportunities, and I think we need to go aggressively after them. And at the same time, look at those things that are the staple of our business which is the bulk and value-added traditional products as well.

Mrs. THURMAN. Thank you.

I think I will give it back to the chairman.

Mr. CONDIT [resuming chair]. Thank you, Mrs. Thurman. We have been cohosting this thing for a couple days, so I appreciate Mrs. Thurman's help. And we apologize to you but we are trying to cast votes at the same time and not inconvenience you.

Mr. Johnson, have pork producers had any luck in utilizing the Export Enhancement Program, there was a great deal of discussion about this a couple years ago, but I haven't heard much about it in way of a followup.

Mr. JOHNSON. Mr. Chairman, we have struggled with the Export Enhancement Program for a long time and are still struggling with it. It seems to be a problem for us to get our message through of the value of an Export Enhancement Program for value-added products. Again, we are looking at an extension right now for some product to go to the former Soviet Union, specifically Russia, that has been held up with some reviews.

Our problem with the reviews are that that market is going to be filled and is being filled at this very moment, by pork from the European Community, specifically Denmark, Holland, or the Netherlands. So we have been very frustrated with our progress with that.

Mr. CONDIT. Do you have any suggestions on how we resolve that, or have you already made those?

Mr. JOHNSON. My suggestions are that we have to try to refocus some of the thinking, I think is the best phrase, to get people to realize that value-added exports really are something that is important to this country and important to rural America, and to get people to refocus on that.

I think we have had some problems with that. I think also the other thing is that people are slow to realize what foreign governments are doing and how heavily they are subsidizing some of their value-added exports, specifically pork, when you look at Denmark and the Netherlands.

Just as an aside, Denmark, pork is their largest export for the whole country, so I think they made it a very high priority.

Mr. CONDIT. Thank you, Mr. Johnson.

Mr. Krajeck, I am concerned about the U.S. AID programs work, at cross-purposes with us. You apparently have similar concerns. Has your organization ever filed a formal or informal protest about your problems? And if you have, what were the results?

Mr. KRAJECK. We have never filed a formal or informal protest. We have had discussions with AID periodically. But nothing that has ever been substantive.

We have tried through the cooperator program to bring attention at USDA to AID programs operating at cross-purposes, but it is very difficult to get any progress on those issues. I don't know where the State Department is going with the AID program. It is clear that agriculture is going to have very little voice in trying to stop programs that are counterproductive.

Mr. CONDIT. Can you elaborate on—is there a reason why you didn't file a formal or informal protest?

Mr. KRAJECK. I don't know what the reason would be. I think that we thought that it was probably not going to be productive.

Mr. CONDIT. It was just simply a matter of you wasting your time and so you——

Mr. KRAJECK. That was our view of it.

Mr. CONDIT. I have a question for all of you. Were any of you invited to participate in the development of the "Long-Term Trade Strategy," and do any of you have any thoughts on the usefulness of such a document?

Mr. KRAJECK. I can answer that. We were not invited to participate, nor to comment. In fact, it has only been within the last couple of days that we have even seen the document. And while I have reviewed it, it was very quickly.

It would seem to me that some of the points being made in the document with regard to exports are valid. In particular, that if we are going to have an export policy, that we have legislation that supports that policy.

Mr. CONDIT. Mr. Terhaar.

Mr. TERHAAR. No, we were not consulted on it. I have not reviewed the document yet. I guess my opinion on the approach is that, again, it is good to have a strategic direction, to have a clear sense of what the agency and its client group need to accomplish. But, again, I think the best long-range plan for Government agency is the compilation of those long-range strategic marketing plans of the people who actually do the exporting. And those are the private businesses.

Mr. CONDIT. Mr. Notar.

Mr. NOTAR. Thank you, Mr. Chairman.

We did respond to a survey from the Foreign Agricultural Service and to that extent, we have had some input to the development of the plan.

In hearing the testimony earlier, my feeling is that every Government agency ought to have a business plan or strategic plan. I would lean to Mr. Terhaar's statement that in that partnership that I spoke of earlier, I really believe that our cooperative membership should have their own strategic or marketing plans and have access to information, have access to changing markets, have access to what financing alternatives are available. And that should be incorporated in their strategic plans as opposed to having that information accumulated and maybe just sitting in a plan document with the FAS or the USDA.

Mr. CONDIT. Mr. Johnson.

Mr. JOHNSON. No, we were not consulted. I would think that maybe our task force that we talked about in our plan could evolve into something like that. But as I understand, it is a philosophical problem and I would agree with the other gentlemen that it really should be a computation or compilation of private industry's plans.

Mr. CONDIT. Let me ask Mr. Notar; the survey that you filled out, was that mailed to you?

Mr. NOTAR. I believe so, sir.

Mr. CONDIT. So I take it that the balance of the panel did not get anything in the mail, that is why you didn't respond, or no one phoned or anything like that?

Mr. KRAJECK. That is right.

Mr. CONDIT. Correct?

Mr. Terhaar, you noted that 50 percent of the OICD activities are not within the mission of enhancing U.S. agricultural products. Can you give us some examples of this, please?

Mr. TERHAAR. The mission as I read it, of OICD, is twofold. One is to transfer agricultural technology and technical information and management skills of USDA, and—sorry, I am reading from the wrong portion there, excuse me, Mr. Chairman.

"To help USDA agencies, U.S. universities and others to enhance U.S. agricultural competitive agricultural competitiveness." That half of the mission, I think, fits within what USDA is doing.

The other half of the mission is to help increase income and food availability in developing nations by mobilizing expertise for agriculturally led economic growth. I do not believe that half of the mission is within USDA or within FAS's purview, if it sticks to the mission of helping the private sector of the U.S. export U.S. agricultural products.

I notice in looking at the budget of OICD for 1992, that they had an operating budgets of $38.8 million. Of that, only $7.2 million was appropriated by Congress to OICD. The remainder, $28.4 million, came primarily from the Agency for International Development. An additional $3.1 million was expended in 1992 for development assistance activities managed by OICD on behalf of other countries and international organizations.

Again, if we focus on the mission as being to promote U.S. agricultural product exports, I don't believe those fit well with the FAS mission.

Mr. CONDIT. Let me correct an impression that apparently I might have left with the survey. I have just been told the survey that you received, Mr. Notar, was sent out by Mr. Penny. He sent

out over 100 of those, I believe, for his own information. And I am sure will share that.

For all of you, I am interested in the types of subsidized competition you face in trying to reach into new and existing markets.

Do any of you have any specific examples of what you consider unfair competition for global markets for your product?

And I have heard you allude to and mention them, but maybe we could be brief and give me some examples.

Mr. Johnson, I know you have done that.

Mr. JOHNSON. Mr. Chairman, yes, we know, for instance, that our cost of production of pork in the United States is approximately 10 cents to 12 cents less than that of Denmark. Yet, when we market products in Japan, their product will be priced between 30 and 40 percent under ours. So in this instance, we know that is made up by the Government's adding an export subsidy, the Danish Government. So that would be one case. We also know that the Canadian Government, for instance, has a tripartite program, that subsidizes the actual production of pork in Canada. So we are fighting against that, and have done some work with that.

Mr. CONDIT. Mr. Krajeck.

Mr. KRAJECK. A clear example for us would be the Korean market for feed grains, which at one point was between 80 and 85 percent held by the United States, is now this year running, I think, at 8 percent. The primary loss in that market has been to Chinese corn, which has been subsidized, but the bulk of the market has been lost to EC subsidized wheat.

We complete a report on an annual basis of markets that we lose to unfair competition, and I would like to forward a copy of that report to the committee so that you can see in a broad range of issues where we are facing unfair competition.

Mr. CONDIT. Mr. Krajeck, we will make that part of the record, if there is no objection to that.

Mr. KRAJECK. Thank you.

[The information follows:]

U.S.
Feed Grains
Council

1400 K Street, N.W.
Suite 1200
Washington, DC 20005

Tel: (202) 789-0789
Fax: (202) 898-0522
Telex: 440064 USFG UI

Export Market Promotion - Competitor Activity

Competitor Expenditures for Feed Grains Promotion

-- The best estimates of the competitor's annual expenditure for export promotion programs equivalent to Market Promotion Program and Foreign Market Development:

COMPETITORS INTO CHINA: EEC - over $2 million, Australia - over $1 million, Canada - over $500,000.

COMPETITORS INTO KOREA: Australia - $85,000, Canada - $220,000, China - $90,000, Thailand - $58,000.

COMPETITORS INTO FSU: EEC - $16 million.

COMPETITORS INTO EGYPT: EEC - $3 million, Argentina - $70,000, Brazil $70,000, Thailand - $100,000, Canada - $20 million, India - $70,000

COMPETITORS INTO TAIWAN: Australia - $100,000, Canada - $50,000, South Africa - $35,000, Argentina - $0.

COMPETITORS INTO SOUTHEAST ASIA: China - $525,000, Canada - $185,000, Australia - $1,240,000, EEC - $200,000, Argentina - $10,000.

COMPETITORS INTO TURKEY: EEC, Canada, Australia, Argentina, China, and Sudan.

Major Target Markets

-- The major markets that are targeted by our competition for the promotion of feed grains.

1) The People's Republic of China
2) Major countries in Mexico
3) Kingdom of Saudi Arabia
4) Iran
5) United Arab Emirates
6) Turkey
7) Jordan
8) Korea
9) Egypt
10) Taiwan
11) Japan

How Competitors Affect our Ability to Compete

CHINA: In terms of the cooperator-like programs in the EEC, Australia and Canada, it does not affect the U.S.'s ability to compete. They are providing technical assistance just like the Council does. One area where they really have the advantage is in how they spend their money, particularly on trade teams overseas. Our competitors make sure that at least 50% of the time spent on their guests is STRE related, with the balance being work. It is believed that they get more sales as a result.

MEXICO: As far as corn and sorghum are concerned, there is relatively no competition. But concerning barley, the lower price of the government-subsidized Canadian barley inhibits our trade efforts.

KOREA: Korea is a price-conscious market and also a society of relationship. The competitors' promotional activities and expenditures have also played a big part in determining the origin of Korea's grain imports.

EGYPT: The EC, for example, exports 130,000 mt of subsidized frozen meat, 75,000 head of subsidized live animals, and subsidized dairy products and feed grains to Egypt. This inhibits the growth of the Egyptian diary, beef and poultry sectors, and consequently prohibits the use of U.S. feed grains.

TAIWAN: Major competitors sell their grains through their grain boards, which often manipulate prices, making the U.S. not competitive in that market.

Competitors Market Promotion Programs for Feed Grains

CHINA: For the cooperator-like programs in the EEC, Australia and Canada, all three competitors provide technical assistance in the form of consultancies, workshops, samples, trade and technical teams to their respective countries and lots of STRE.

MEXICO: The Canadian Wheat Board has worked with the Canadian International Institute in establishing programs designed to show foreign buyers the advantages of Canadian malt and malting barley. For example, several international malting and brewing technology courses have been held in Winnipeg over the years. The Wheat Board has also worked closely with the Canadian marketers and domestic processors so that markets could be developed for value-added malt. Malting barley used for export malt is priced so that domestic processors can be competitive with other world suppliers. The Wheat Board also has had two "New Crop Seminars" in Mexico and Colombia to educate importers about their crop quality. The Canada grains Council, the Ontario Grain Corn Council, Agriculture Canada, the Ontario Ministry of Agriculture and Food, and the Ontario grain and Feed Dealers Association all have done a lot of work in export promotion of Canadian corn. Overall, most Canadian grain export promotion is funded by the government and the grain is heavily subsidized for export.

TURKEY: The competitors such as the EEC, Canada, and Australia do no have any aggressive grain promotion programs in Turkey. They only make occasional trade servicing visits to follow the grain market there. Concerning the livestock industry, only Italy seems to be very aggressive and have a well-structured market promotion program. The purpose of the project is to introduce Italian Holstein dairy cattle

into the Turkish market. For this project, the ministry of Foreign Affairs of Italy made an agreement with the Government of Turkey to provide technical assistance and to release a fund ($13 million) to buy 3,149 dairy cattle, cars, computers and other related equipment from Italy. The project was designed to establish 222 model dairy farms and to provide technical assistance such as feeding, management, record-keeping and training to these model farms and the people that work on them. The Italian government will renew this agreement in 1994 (the previous one was from 1989-93), with a financial contribution of $12 million. These projects have been beneficial to the Council because the increase in dairy cattle has caused an increase in feed grain demand, and the government has allowed us to participate in the feed development process on the model dairy farms.

POLAND: The Canadian government works mainly with upper- level Polish officials in order to export grain into Poland. They basically are unfamiliar with working with feed mills and/or trading companies. Canadian specialists do assist Polish extension officers in upgrading their educations; they also help develop technical programs in Poland. One Canadian commodity trading company opened a subsidiary in Warsaw, and deals not only with Canadian grains, but also buys grain from other countries to sell to the FSU and others.

KOREA: *Australia:* 1) Sponsor Korean Team to Australia (One team/year, 6 members, 10 days); 2) Seminar in Korea (One specialist/year to introduce new feed stuff); 3) Trade Servicing (distribution of weekly market news AWB Official's visits to Korea, 6-7 times/year, from Australia & Japan, Advertisement through livestock & poultry periodicals, Telephone visits)
Canada: 1) Sponsor Educational Travel to Canada through Canadian International Grain Institute (4 persons/year, up to two weeks); 2) Korean Team to Canada (one team/year, 10 members, 10 days); 3) Technical & Trade Seminar (by inviting 4 Aussie specialists on average, publishing proceedings, providing meals, etc.); 4) Trade Servicing Canadian Official's visits to Korea
China: 1) Trade Servicing thorough the Ceroil/Seoul Office.
Thailand: 1) Sponsor Korean Team Travel to Thailand (KCPIA team, 6 members, 1 week; KFA team, 8 members, 1 week); 2) Trade Servicing (visits & telephone contacts)

SOUTHEAST ASIA: Canadians have conducted two promotion efforts into SEA: 1) barley malt samples to Singapore (at a cost of approximately $100,000) and 2) hulless barley feeding trial in Malaysia (approximately $200,000). Canada has not yet made any sales into either of those areas. The Canadian International Grains Institute (CIGI) just recently began working with the Malaysian Livestock Cooperative Society on promoting canola meal and hulless barley for feed use. They have made trade servicing trips to Malaysia, and will be conducting feeding demonstration trials on three pig farms in Selango. Most of the competition into Southeast Asia, though, is based on price, not promotion. The EEC exports malt, corn grits, corn starch and corn meal at such a reduced price compared to the U.S. that we cannot compete with them in the Southeast Asian markets.

Heilongqian Trading Company of China recently set up a contact office in Kuala Lumpur to service the Malaysian customers. The office is run by two expatriate Chinese and four or five local staff. The traders from China also make trade servicing trips to Malaysia at least 5-6 times a year. Each trade service trip, large amounts of money are spent on entertaining the customers.

EGYPT: The EC program (see #2), which is the most important, is a government program. However, individual EC countries such as Germany and Denmark also have private sector programs.

TAIWAN: *Australia*: Annually sends barley sales teams to Taipei and sponsors a 10-member Taiwanese barley team to Australia (funded by the barley boards). *Canada:* Annually the Canadian International Grains Institute invites approximately 5 importers of wheat, barley, feed wheat for a 3 week visit to Canada to participate in the "International Feed and Oilseed Program" which includes a week-long short course. *South Africa*: Sponsors a buyers' team of about 10 members for 2 weeks.

JAPAN: Canada and Australia are the principal competitors, for barley and malt. They focus their promotional efforts on influencing the Japanese government (the Japan Food Agency) to secure market share. Canada actively courts JFA officials to visit Canada to review production, supply and crop quality; the Canadians pay for these annual trips. Australia also actively promotes barley exports and will support JFA mission visits. Also, both the Canadian and Australian embassy utilize government agricultural officials to promote and negotiate government-to-government wheat and barley supply agreements. It is difficult to estimate the resources and monetary commitment used for barley export promotion in Japan, because their efforts are targeted at the JFA, and this information is confidential. Private traders and barley processors are basically out of the loop, as they have no direct role in making purchasing decisions.

For corn and sorghum, Japan's main competitors are China, Argentina, South Africa, and to a lesser extent, Australia.

China and Argentina do little in the way of funding formal export promotion programs. They will host Japanese grain industry teams for visits, organize meetings, and promote their products for exports, however, the Japanese pay for the majority of the travel costs for trade missions. The key tool employed by the PRC and Argentina is the utilization of government grain board export pricing practices. Competitive pricing of feed grains targeted for exports for "cash" paying customers (Japan) by China and Argentina appear to be "rationalized" as government grain boards offer lower export prices relative to internal domestic prices. China uses Ceroil (a government agency) to negotiate quarterly corn supply agreements with Japanese trading companies; pricing practices are private and confidential.

The U.S.'s competitors in Japan tend to use a centralized approach to export feed grains; methods used for export promotion, grain pricing and tendering are "closed" in comparison to U.S. marketing practices to maximize export efforts and results.

Foreign Competitors Programs to Facilitate Exports

CHINA: In the early 80's, Australia gave the Chinese 50,000 metric tons of malting barley and provided all of the technical support to use it. Estimated cost: $1 million. Today, they have the bulk of China's malting barley market. While we have no confirmation, the Aussies gave the Chinese credit to buy malting barley this year - terms unknown.

In the 80's, the Germans built a technical center at the Beijing Agriculture University, specializing in feed and feeding, with continued tech support. Estimated cost: $7 million.

Germany provides a grant to China every year to use in agriculturally related projects. Annual grant: about DM20 million.

The French have an "Ag Tech Support" Bureau in China, which provides lots of free equipment, machinery and other gifts. While concentrating on wheat to date as best as we can tell, we have seen their gifts in feed related facilities. Budget unknown, but including expert staff, office and gifts, it must be $1-2 million per year.

Everywhere we go, we see gifts of free lab equipment, supplies and machinery from the EEC and Japan. Collectively, it would be valued in many hundreds of thousands of dollars.

The EEC, for certain, and Japan, we suspect, are providing soft loans for feed and storage equipment, lab instruments, etc. We know of 2-3 feedmill lines financed with soft loans by Italy (no principal down, first payment in 10 years @ 2-3% per year).
Assuming a loan of $1 million/mill and a commercial rate of 8%, these three mills alone would represent a subsidy of $240,000/year over, say five years, in rough numbers.

The Australians, the Canadians, and the EEC always seemed to be able to find a cheaper price for their 2-row barley to compete against our 6-row. Because of Australia's and Canada's barley board system, they have for the last two years been able to negotiate with Ceroils to offer their 2-row below U.S. 6-row. At 750,000mt per year and a conservative $10/mt, that comes to $7.5 million per year.

MEXICO: Canada is the only country that has a similar program to that of the U.S. CCC (GSM-102 and GSM-103) programs for feed grains.

FORMER SOVIET UNION: 1. The Commission of European Communities has an office in Moscow which is responsible for allocating the market development money contributed by the EEC to all of the CIS. Currently the CEC is also working to create a network of offices in the Urals and Siberia as part of its strategy for long-term technical assistance to Russia.
THIS IS HOW THE PROGRAM WORKS: Each country in the EC contributes a specific amount of money to the Commission. The Commission, headquartered in Brussels, allocates this money to various countries or regions. The office in Moscow is responsible for all of the CIS countries. It is this office which decides on the type and size of projects in the CIS. All various countries or regions. The office in Moscow is responsible for all of the CIS countries. It is this office which decides on the type and size of projects in the CIS. All projects are on a tender basis, and any European company, university or organization can bid. Theoretically, even an American company with a European office can bid.

NATURE OF PROJECTS: Most of the projects can be described as "technical assistance". Just like the Council, specialist are hired who provide training seminars, demonstrations and individual consulting.
SPECIFIC PROJECTS RELATED TO FEED GRAINS: 1) In the Moscow region, the EC is working with a large poultry farm on improved nutrition and management. 2) In St. Petersburg, there is a project to assist a feed manufacturer in improving the production of mixed feed for livestock. Some investment was also made to renovate equipment in the feedmill. 3) In Saratov the EC is funding a study of the grain milling industry in the region which includes that for food use in addition to feed uses. 4) In Samara, the EC will soon launch five projects focusing on extension and information systems. Some of these will include projects in food distribution and wholesale marketing.

THE BALTIC STATES: The EC does allocate some funds for technical assistance to the Baltics but the level of spending is unknown to us. *NATURE OF PROJECTS:* As in the case of the CIS, most of the projects can be described as technical assistance.
SPECIFIC PROJECTS RELATED TO FEED GRAINS: 1) Consultants are used in the poultry industry to asses the situation regarding feed quality, bird health and energy saving measures in poultry houses. 2) A project is being funded to renovate a premix mill and some vitamin premixes have been initially donated to the project. 3) The EC has funded a project to set up a farmers consulting center in Lithuania. 4) Introduction of new wheat varieties in Lithuania.

UKRAINE: Assistance from the EC and Canada is taking the form of technical assistance to livestock industries, agricultural machinery and crop production. The EC also has COFACE credit which it last offered to the Ukraine in 1992. The COFACE credit was worth $100 million of which 10 million was used to purchase corn, 4 million for barley and the balance for wheat.

OTHER FSU/EEU: In 1991 the Dutch government announced a program to provide leasing opportunities up to $18.9 million for projects in each of the following countries: Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Estonia, Georgia, Kazakhstan, Kirgistan, Latvia, Lithuania, Moldova, Ukraine, Poland, Russia, Slovakia, Tagikistan, and Turkmenistan. This program is funded under what the Dutch government calls the Government Help Program for Eastern Europe. The program is responsible for the crediting process, and an economic council provides guarantees for these credits. These funds can be used for both agricultural and non-ag projects.

KOREA: 1) Thai government presented a decoration of her Majesty King Bhumibol Adulyadei to Mr. Joo Ho Kim, President of Korea Feed Association for his efforts to mitigate trade barriers - reduce the level of import duty. 2) EC members provide an export subsidy for the exports of feed wheat, malt, etc. 3) It is known that the Canadian government assumes inland/domestic transportation costs to export raw agricultural products. 4) China always sets the export prices of corn, sorghum and feed wheat below the world market prices.

EGYPT: From the EC, most of the promotion is through feed grain subsidies, and the promotion of animal production industries which directly or indirectly affect feed grain imports. Canada also spends most of its promotional efforts on the animal sector. Argentina, Brazil, India and Thailand spend their promotion efforts on team visits.

TAIWAN: 1) Australia exports some 80,000 mt of malting barley annually to Taiwan Tobacco and Wine Monopoly Bureau on "destination final" terms. 2) Thailand dumps about 150-200,000 mt of tapioca pellet annually for the local feed industry in exchange for export quotas to the EC market. 3) Subsidized exports of about 50,000 mt of corn starch to Taiwan annually by the EC. 4) Australian and Canadian barley boards' price manipulation for annual sales of about 160,000 mt of barley for feed use.

U.S. FEED GRAINS COUNCIL

TRADE POLICY BARRIER WORKSHEET
MAY 1993

COUNTRY	BARRIER DESCRIPTION	WHO SHOULD ADDRESS THE ISSUE	INCREASE IN US EXPORTS (1,000 MT)	VALUE INCREASE ($1,000)*	SUGGESTED RANKING**
Brazil	All grain imports are subject to import licenses.	FAS/USTR	100		2
Brazil	Tariff structure discriminates against grain imports not from other COMERSUR nations. (Argentina, Paraguay, Uruguay and Brazil)	FAS/USTR	115		3
Brazil	10% Ad Valorem duty on corn & 15% Ad Valorem duty on barley. (est. for FY93, per reform tariff announced in 1991, 10% Ad Valorem import duty for corn and barley.)	FAS/USTR	50		2
Chile	Ad valorem duty on corn and sorghum imports is 11%.	FAS/USTR	325		3
Chile	A value added tax of 18% is applied to all goods sold at the customer level.	FAS/USTR	10		3
China	40% duty on malt.	USFGC/FAS/USTR	15		1
China	TCK/PNW export restriction.	FAS/USTR	100		2
China	Intransparency and monopoly imports/controls on grains.	FAS/USTR	1,000		2
Colombia	Price band system/variable levy.	FAS/USTR	100		1

* completed by commodity division
** 1-3 1 = highest priority

COUNTRY	BARRIER DESCRIPTION	WHO SHOULD ADDRESS THE ISSUE	INCREASE IN US EXPORTS (1,000 MT)	VALUE INCREASE ($1,000)*	SUGGESTED RANKING**
Ecuador	Government set quotas. Quantity set usually falls short of requests by feed manufacturers.	FAS	100		2
Ecuador	15% Ad valorem duty for sorghum plus 3% national tax. Price bands.	FAS/USTR	25		1
Ecuador	12% Ad valorem duty for corn plus 3% of national tax.	FAS/USTR	10		1
Ecuador	Corn import ban.	FAS/USTR	25		1
Egypt	Monopoly of the Ministry of industry over the production and use of indirectly subsidized cotton-seed meal kills competition.	USFGC/FAS	510		3
Egypt	Quality of bread is poor due to govt. subsidies. Wheat and rejected breads are used in animal feeds. Official est.: 500,000 tons. Unofficial est.: 1,000,000 tons.	USFGC/FAS	425		3
Egypt	Quality control regulations on animal feeds impede the flow of feed grains and finished feeds to end-users.	USFGC	100		2
India	The GOI continues to resist the poultry/livestock industries requests for feed grain imports. There is a growing mood that maize imports are necessary if the poultry and livestock sectors are to grow.	FAS/USFGC/AID	1,000		1

* completed by commodity division
** 1-3 1 = highest priority

COUNTRY	BARRIER DESCRIPTION	WHO SHOULD ADDRESS THE ISSUE	INCREASE IN US EXPORTS (1,000 MT)	VALUE INCREASE ($1,000)*	SUGGESTED RANKING**
India	The issuance of import licenses tightly controlled by the GOI.	USTR	150		1
India	Extremely high tariffs on grain products: Corn flour/starches 60%, rolled and flaked barley or corn 100%, corn oil 200%, gluten feed 60%, high fructose corn syrup 100% and malt/malt extracts 100%.	FAS/USFGC	100		2
Japan	Article 13 and related restrictions prevent lowest costs. Key elements: 1. Only customs approved feedmills can source duty free corn/sorghum 2. Price Stabilization 3. Point system 4. Mandatory processing or flaking 5. Govt controlled feed formulations 6. Costly govt inspections 7. High 15% or Y60,000/mt tariff on feed imports	USTR/FAS/USFGC	2,000		1
Japan	50% duty on corn, 5% on sorghum outside Article 13.	USTR/FAS/USFGC	500		1
Japan	Industrial corn tariff quota stymies growth; Over quota tariff of Y12,000/kg.	USTR/FAS/USFGC	100		1
Japan	Flaked feed corn tariff quota; 50% or Y12,000/kg duty for over quota imports.	USTR/FAS/USFGC	400		1
Japan	Corn tariff quota for starch; 50% or Y12,000/kg duty over quota.	(Incorporated above)			

* completed by commodity division

** 1-3 1 = highest priority

COUNTRY	BARRIER DESCRIPTION	WHO SHOULD ADDRESS THE ISSUE	INCREASE IN US EXPORTS (1,000 MT)	VALUE INCREASE ($1,000)*	SUGGESTED RANKING**
Japan	Corn tariff quota for food, alcohol beverages 50% or ¥12,000/kg duty for over quota. 20% duty for corn for grits.	(Incorporated above)			
Japan	Food agency barley import control limits demand.	FAS/USFGC	300		2
Japan	Quotas, high duty for import feeder cattle.	USTR/FAS/USFGC	500		2
Japan	Protection/subsidies of domestic barley for malt. Tariff quota restricts usage. ¥25/kg duty over quota.	USTR	80		3
Japan	MITI skim milk control doubles prices, adds to input costs.	USTR	70		3
Japan	25% duty on corn flour starches, grits.	USTR/FAS/USFGC	20		2
Japan	¥10-207/kg duty on crude corn oil imports.	USTR/FAS/USFGC	30		3
Japan	60% or ¥30/kg duty on high fructose import (50% in 1992)	USTR/FAS/USFGC	25		2
Japan	15.4% import duty on most breakfast cereals.	USTR/FAS	30		3
Korea	Quotas on corn imports cause feed millers use more feed grain substitutes to manage possible temporary short supply.	FAS	100		2

* completed by commodity division
** 1-3 1 = highest priority

COUNTRY	BARRIER DESCRIPTION	WHO SHOULD ADDRESS THE ISSUE	INCREASE IN US EXPORTS (1,000 MT)	VALUE INCREASE ($1,000)*	SUGGESTED RANKING**
Korea	Import duty 2-3% on feed grains and VAT 10% on mixed feeds affects competitiveness of livestock and poultry industry on world market.	FAS/USFGC	200		3
Korea	Import ban on barley for feed use. Limits the opportunity to reduce the production cost of mixed feed. Import tariffs of 35% on malting barley and malt restrict imports.	FAS	100		1
Korea	Import restriction on major corn products - corn grits.Importation of corn flour is allowed at 7% tariff.	FAS/USFGC	50		2
Korea	Ban on feeder cattle imports limits the use of feed grains.	FAS/USFGC	500		2
Pakistan	Yellow maize imports subject to 21% in fees/taxes assessed on the CIF value regardless of being placed on the duty free list.	FAS/USFGC	200		1
Pakistan	Ad Valorem tariff of 73.5% on grain sorghum, 61% on barley, 113% on grits, 73.5% on fructose syrup and 70% on malt/malt extract.	FAS/USFGC	400		1
Peru	Ad valorem duty of 15% on corn and sorghum imports.	FAS	60		3
Peru	Specific duty according to price band reference (fob).	FAS/USTR	20		2

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COUNTRY	BARRIER DESCRIPTION	WHO SHOULD ADDRESS THE ISSUE	INCREASE IN US EXPORTS (1,000 MT)	VALUE INCREASE ($1,000)*	SUGGESTED RANKING**
Philippines	Commitment to liberalize corn imports by eliminating the licensing system was not fulfilled.	USTR/AID	55		1
Saudi Arabia	Subsidization of barley to stabilize the price has eliminated private sector. Eliminated competition/speculation in barley imports.	FAS/USFGC	1,000		1
Saudi Arabia	Subsidized imports of grain sorghum from Sudan. The private sector is free to import sorghum from any source but would not receive subsidy payments.	FAS/USFGC	250		3
Taiwan	Different tariffs on starch imports: tapioca starch 17%, corn 20%.	USFGC/Taiwan Corn Industry Assn.	100		3
Taiwan	Heavy subsidization of production of 300,000 mt of corn and 100,000 mt of sorghum while importing from the U.S. at one third of the subsidized prices. (However Taiwan is planning to reduce subsidies due to GATT application.)	FAS	200		3
Turkey	Import duties for corn $30/mt, barley $30/mt, malting barley $30/mt.	USFGC/FAS	200		1
Venezuela	Ad valorem duty of 15%. 60% surcharge on yellow corn increases effective tariff rate to 24%.	FAS	80		1

* completed by commodity division
** 1-3 1 = highest priority

COUNTRY	BARRIER DESCRIPTION	WHO SHOULD ADDRESS THE ISSUE	INCREASE IN US EXPORTS (1,000 MT)	VALUE INCREASE ($1,000)*	SUGGESTED RANKING**
Venezuela	Price band system.	FAS/USTR	100		1

*   completed by commodity division
**   1-3 1 = highest priority

Mr. CONDIT. Mr. Notar, do you have any examples?

Mr. NOTAR. No, sir; I don't.

I can't give you an example right now. I think the main emphasis I would like to leave with the subcommittees, sir, is that U.S. cooperatives are looking over the horizon and overseas, and as those difficulties are encountered and unfair competition may arise, we would certainly communicate that.

Mr. CONDIT. Thank you.

Mr. Terhaar.

Mr. TERHAAR. Mr. Chairman, within the cotton sector, there are a number of instances of unfair competition. We submit those instances with our marketing plans to USDA every year. We also go through the exercise that Mr. Krajeck mentioned about identifying unfair trade practices. I believe the requirement from Congress to prepare such a report by USDA on a trial basis was dropped in 1990. That seemed like a good way to bring these unfair trade practices to the attention of the Congress.

In cotton, our main problems with unfair competition lie in the Central European countries, for instance Uzbekistan, with a centrally planned economy that can export cotton for whatever hard currency makes it more valuable than worthless rubles which they would receive by exporting to Russia.

Same thing with China, there is no real structure for costs, for input costs and export costs. Therefore, China can afford to export either product or raw cotton more cheaply than what a market economy can. Similarly, the EC is directly subsidizing its cotton production which is well above what it would be if it were at world levels and that runs into export competition.

You see EC cotton showing up in Brazil which makes no sense at all in terms of marketing.

Thank you.

Mr. CONDIT. Thank you very much.

Mr. Johnson, does your coalition feel there is adequate coordination between the various export programs available at FAS to launch an all-out push to export high-value products?

Mr. JOHNSON. At this time, I would really want to talk to the rest of the members of the coalition, but I would say that I think there needs to be far more coordination from my standpoint of what is going on, and I think that we need to emphasize that and develop some working groups to enhance that coordination.

Mr. CONDIT. A question for all of you.

The GAO witness who testified earlier was critical of the usefulness of the FAS's reports. Do you agree with this assessment?

How can these reports be made more useful?

Mr. JOHNSON. Mr. Chairman, I wouldn't have any comment on that because I really haven't seen those reports.

Mr. CONDIT. Mr. Krajeck.

Mr. KRAJECK. We value the reports generally. I mean, on particularly those that obviously relate to supply and demand for feed grains. Not all reports produced by FAS are of value to us. But they couldn't possibly meet everybody's individual needs. We are very satisfied with the reports that we are seeing and do not have recommendations at this time.

Mr. CONDIT. Mr. Notar.

Mr. NOTAR. We also receive the FAS reports. We have no real recommendations other than I think it would be very helpful, Mr. Chairman, as the grouping and mergers of the Departments and agencies take place, and we move forward toward possibly a one-stop or two-stop shop, that FAS and USDA, through a series of meetings or programs on a periodic basis, reach out regionally and have an opportunity to get feedback such as you are getting here today.

I think trying to keep that dialogue going across the country on a periodic basis, maybe using the reports or an executive summary of the reports as a foundation to do that, would be very helpful to continue to get feedback and information.

Mr. CONDIT. Mr. Terhaar.

Mr. TERHAAR. Mr. Chairman, I rarely agree with the GAO's findings. In this case, the report that FAS's publications and reports are of limited use to the private sector, I would have to in part agree with. I think that where FAS is unique, is its ability to acquire raw data, trade contacts overseas, on the ground where it does the most good for us, and report that back to the private sector.

FAS Washington, instead of trying to compete with other USDA and other agencies on analysis, needs to focus on being a pass-through using modern electronic dissemination methods of those excellent attaché reports of the data bases that are unique to FAS, where we do the best job of collecting data overseas of any country. As a matter of fact, a lot of countries use our data because it is a lot more cost effective than collecting their own. That is the unique part.

The other unique side is that relationship with the private sector to actually export the product, I think FAS has to focus on those two sides and the middle part is, frankly, in today's world, of somewhat limited value to the private sector. The part about export credits, trade policy, to the extent they need analytical support, it is valid. Beyond that, I would not agree with.

Thank you.

Mr. CONDIT. I am going to yield to Mrs. Thurman for a final round of questioning.

Mrs. THURMAN. Mr. Notar, you were here earlier when I asked the question about the ethyl bromide kind of thing and the coordination. And so my question is kind of a follow-up to you all.

Do you think that there is cooperation, but just as importantly, is the small businessman being intimidated by the maze of Federal bureaucracy and programs that are available to help get you into that exporting business? And if they are, could you tell us where you would like some changes to really develop a true one-stop?

Mr. NOTAR. That is an excellent question because I think it does relate to particularly some of the smaller and midsize cooperatives. I think there is an apprehension, an anxiety, about how to approach and get and accumulate information. And having that information, either through a fax possibility or a series of regional meetings once in a while, I think FAS and USDA has to reach out to have an opportunity to get feedback and have small- and medium-sized cooperatives have a chance to understand that this is not the

maze, this is not a bureaucracy, there is a source of help, there is a potential for information.

And if it is a chemical additive question, if it is a freight or shipment question, if it is a who do you have overseas that you can trust question, I think there has to be an additional reaching out process, particularly to help those small- and medium-sized cooperatives. We have tried to start that process through NCBA and CBI as a catalyst and support organization for that.

Mrs. THURMAN. Wait a minute. Tell me what those acronyms are.

Mr. NOTAR. Pardon me. NCBA is the National Cooperative Business Association, our membership association. And in the mid-1980's, we put together a small trading arm called Cooperative Business International, CBI, because we recognized that U.S. cooperatives needed a way to access that information and to help them with trade. And over time, and as I say, there has been some stops and starts, it hasn't been an even process, but over time CBI has been able to help those small- and medium-sized and now even some of the larger cooperatives access information and access the export market.

I can only emphasize that it is that information and dialog and having the FAS and USDA reach out to try to help those small- and medium-sized businesses, whether it is through SBA, the Commerce Department, U.S. AID, or whatever, but somehow that information has to be made available and be made more accessible so that those small- and medium-sized cooperatives feel that they have a chance to look overseas.

Mrs. THURMAN. Let me ask this question. Maybe you are familiar with this, but in the aquaculture program that was done in Florida, which has now become a big issue and a big industry for Florida, we were finding that they were having problems in getting through the system and getting started up and doing all of the kinds of things they did environmentally and everything else because there was a lack of coordination between the different agencies and departments that would have some kind of permitting or regulation or whatever.

Would it be helpful if maybe that, say all of these different departments and agencies that would be involved in the development had like a coordinating council of those government entities that would be involved in that opportunity for your small businesses?

Mr. NOTAR. I guess my knee-jerk response would be probably not. I think having the trade association, the membership association, the State organization that might be able to help access that one-stop shopping, I think would be probably more helpful than necessarily having an overall council umbrella.

I think that council would probably be best served within the USDA itself as opposed to having that overall umbrella council try access the SBA and Commerce and Trade and so forth. I think somehow there has to be a funneling source, but my feeling is that having another layer, having a council probably wouldn't be the best way.

Mrs. THURMAN. Thank you.

Mr. Krajeck, as you know the GSM programs are facing difficulty because of defaults by some major borrowers. Has this resulted in

the loss of sales due to restrictions or have you been able to acquire alternative financing through the CCC or private sector?

Mr. KRAJECK. I think that we have to be careful about how many sales under GSM have defaulted because I think in the history of the program, it has been relatively few. There is a problem right now, as I understand it, with Russia in—but I think that they have been made current again and could, in fact, have some eligibility under the program.

Sales have been limited because of the creditworthiness standards that are a part of the program under GSM. And there is no doubt, if you look at feed grains exports and specifically at corn, that we have suffered greatly with Russia and the former Soviet Union countries out of the market.

Credit certainly isn't the whole answer to that, in other words, to restoring that market, nor are give-away programs, but I think we need to look, and I have commented on that in my paper, that I think that we need to look at GSM programs to see where those limitations are and if necessary, look at new credit programs to address these new markets which have special needs, and in some instances, it may be going back to programs that we previously had in place. I think that the GSM–103 program may be an example of that.

I am not real clear about all of those, but it is a program that is no longer funded, but provided different sort of credit terms, longer credit terms that enabled new economies to develop.

Mrs. THURMAN. And the last question I have is for all of you. Have any of you received the new report by the Trade Promotion Coordinating Committee, and if you have, I am interested in any comments you may have on this document.

Mr. KRAJECK. We don't have it.

Mr. TERHAAR. Yes, we have received that. We have read it, and I referred extensively to that report in my written statement. Again, I think that FAS over time and USDA have proven to be the one-stop shop that is mentioned frequently in that report.

I think that that is why, perhaps, the USDA has not been as forthcoming, if that is the case, I don't know, in the TPPC because agriculture, U.S. agriculture and FAS have already been at that level for 40 years.

I think it is the rest of the U.S. industry trying to reach that level and then maybe once they do reach that level, you can make the next step.

Mrs. THURMAN. I just want to tell you all that I appreciate you being here and I certainly applaud your efforts in what you are trying to do. I can't think of anything that is more important in this country than our agricultural production, so thank you.

Mr. CONDIT. I would like to thank you for participating in the hearing this morning. This has been a joint subcommittee hearing, although it has sort of been one-sided. It is because there is a lot of activity, as you all know, going on in the building and Mr. Penny has a major issue before the Budget Committee right now, and that is why he did not participate in the latter part of this today.

But we do want to thank him for his interest in this. He has been extremely interested in this, and has been a leader in this area, and I want to thank him and his staff for all the work that

they have done in putting this joint committee hearing together, as well as the subcommittees staffs, who worked on it as well.

Anyway, thank you very much. We appreciate you being here and we appreciate your organizations for participating. Thank you, this meeting is adjourned.

[Whereupon, at 11:50 a.m., the subcommittees adjourned, to reconvene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement by Christopher Goldthwait
Acting General Sales Manager
Foreign Agricultural Service
Before the House Committee on Agriculture
Subcommittee on Foreign Agriculture and Hunger and
House Committee on Government Operations
Subcommittee on Information, Justice,
Transportation and Agriculture

November 10, 1993

Thank you, Chairmen Penny and Condit, for the opportunity to testify before these subcommittees. I am more than grateful for the opportunity to appear before you at what is undoubtedly a critical juncture for the Foreign Agricultural Service (FAS). I want first to spend a few minutes talking about overall Department direction and policy in the international area, and export policy specifically, and then offer some comments on the questions posed in your letter of invitation.

A Time To Review Fundamental Direction

All of the factors that make today's world vitally different from that in which we crafted the 1990 Farm Bill are well known. A few of these affecting FAS in particular, are:

-- Dramatic changes in the former Soviet Union and Eastern Europe -- countries that happen to be major U.S. agricultural markets.

-- The prospect for major gains on the international trade front with the successful passage of NAFTA and conclusion of the Uruguay Round. On this, Messrs. Chairmen, let me offer an aside -- NAFTA is absolutely vital to America's future economic growth -- most of what the agreement is criticized for will occur without it; passage of NAFTA offers the prospect for progress on jobs, environment, competitive conditions, in short a level playing field.

-- Creation through the reorganization process, of a new agency, the International Trade Service (ITS).

-- The Administration's effort to reinvent, to reinvigorate government administration with the National Performance Review (NPR) and in a context of significant budgetary constraints.

-- The approach of a new Farm Bill.

-- And, not least, a new Administration with a new Secretary of Agriculture dedicated to the mission of the Department to better serve all American producers and consumers.

My purpose in coming before you today is not to provide all the answers regarding FAS's export programs, or even to provide comprehensive answers to the questions you have specifically posed. These are issues for major reflection and discussion, for answers that are developed together in partnership between the Administration and the Congress. My purpose is to demonstrate to you that we in the Department have a vision to bring to the table of where we should be going with our new International Trade Service (ITS) agency, and with our export efforts particularly.

Mission of the International Trade Service

As you know, formation of ITS that carries out the functions of FAS and the former OICD is part of Secretary Espy's mission-driven reorganization of the Department. We want one agency that achieves synergy and focus by combining most of the Department's international activities under one agency. Let me stress that the change is more than structural -- it seeks to be cultural as well, to inject a new entrepreneurial spirit into our

work. Change reminds us that while much is right with the way FAS and its export activities are managed, there is, of course, a need to reassess our objectives.

The mission of our new agency is to enhance both agricultural exports and relationships generally with key agricultural traders and food and agricultural organizations. To the familiar goals of market intelligence and trade promotion, our personnel from the former OICD brings the significance of the broader agricultural relationship and its overall affect on trade and U.S. relations. And of course U.S. agriculture benefits from the many exchanges and joint projects personnel from the former OICD will continue to manage.

Clearly, mission is fundamental for our new agency, and it comes from the idea of who we serve. And the ITS clientele is broad indeed:

-- U.S. farmers and ranchers, first and foremost;

-- Exporters;

-- USDA cooperators and other producer and commodity groups;

-- Processors and handlers of farm products;

--Every American who benefits from reasonable food prices secured by efficient production supported by healthy exports;

-- Our foreign customers;

-- International organizations, foreign governments, U.S. and international donor agencies, universities, private voluntary organizations and others in the international community;

Elements of an Agricultural Export Strategy

Before turning specifically to the Subcommittees' questions, let me comment briefly

on the elements that we are gradually developing into a comprehensive agricultural export strategy. These are three legs of the stool from which we will reach higher levels of exports:

1) Rebuilding bulk commodity markets;

2) Focusing on emerging markets in addition to emerging democracies;

3) Building broader agricultural relationships with foreign partners.

Subject to the condition that this strategy -- is still evolving under the leadership of Secretary Espy and Under Secretary Moos, let me offer a little elaboration.

1. Rebuilding bulk commodity markets.

U.S. sales of bulk commodities have not done as well over the past year or two as we think they should have on a value/volume basis. Partly this is due to changes in import markets and subsidized competition. What can we do to regain and enlarge these markets? Some ideas:

a) Continue to be an ample, price-competitive supplier -- this relates to decisions on commodity acreage reduction levels, commodity price support levels, and continued vigorous use of the Export Enhancement Program and other subsidy programs.

b) Continue our pressure in international negotiations and begin planning for an era of fairer trade and subsidies, in which American exports will be more competitive.

c) Tackle specific trade barriers. TCK is a fungus which for 25 years has limited exports of U.S. Pacific Northwest wheat to China. Secretary Espy extracted a specific commitment from China's agricultural minister to try to resolve it during his recent visit to China.

2. Focus on emerging markets, not just emerging democracies.

By emerging markets we mean both the rapid growth in trade in high value products, and the rapid import growth in specific countries in the Pacific Rim and elsewhere.

Over the past two years the Department has devoted considerable resources to maintaining export levels to emerging democracies, especially to Russia. These are countries that have been, and continue to be, important U.S. markets. They are not always, however, the most rapidly growing markets on a short- to medium-term basis. No foreign market is static; instead, just as countries evolve economically, they also grow through different stages as markets for U.S. commodities.

Secretary Espy has emphasized that we must refocus our attention and effort on the broader array of emerging markets for quicker benefits. Increased cooperative and development efforts significantly enhance our long term market development efforts.

Where are these markets? Let me name only a few countries that have been experiencing explosive growth -- we haven't yet successfully penetrated when it comes to agricultural trade.

China -- especially the coastal regions from Shenzhen to Shanghai; Indonesia; and other southeast Asian markets, including Thailand, Malaysia and the Philippines. Mexico -- and here let me again stress the importance of NAFTA. Other Latin American markets such as Chile, Argentina, Brazil and Venezuela; and longer term markets such as India, Egypt and Nigeria. The United States has had extensive cooperative arrangements with these countries. We will continue to build on this foundation to further the expansion of agricultural markets.

Emerging markets also mean markets for high value commodities, since this is the growth area of world trade. This trade is increasing at 9 percent yearly.

During the past decade, global trade in agricultural products expanded by 38 percent -- fueled largely by growing exports of consumer-oriented high-value products. We believe many of the emerging markets mentioned above, especially those in southeast Asia, will provide great market opportunities for increasing U.S. high-value exports even more.

So what do we do to penetrate these markets? My colleagues and I will be traveling in these markets extensively over the next several months. Having successfully developed markets in Japan, Korea, Canada and Europe, we will be asking what makes this next group of markets different? What common characteristics do they share, or are they unique? What about the strengths and weaknesses of our current export and promotion programs in terms of helping the export of U.S. commodities? Are there ways in which these programs should be used in these markets to reduce the risks to and maximize the investments of the private sector? Do these markets imply a significant reallocation of program resources? Do they require a restructuring of current program applications? Legislative changes? New programs?

Relatedly, are there ways we can form the high quality and safety of U.S. products into an effective marketing tool, in countries even more concerned about phytosanitary issues? I offer some more specific ideas in response to your question about emerging markets.

3. A broader agricultural relationship.

The Secretary's trip to China and his visits with many ministers from emerging

democracies have made clear the important role strengthened agricultural cooperation can play in creating a proclivity for trade with the United States and an overall favorable bilateral relationship. This is why the merger of FAS and the functions of the former OICD into the new ITS agency is important in strengthening our ability to support this kind of relationship. The technical assistance, exchanges and joint scientific research personnel of the former OICD supports direct benefits to U.S. agriculture, and strengthens the vital spirit of cooperation with the emerging democracies. In addition, the programs of the former OICD bring new scientific and technical knowledge to our shores and keep our research and development efforts on the cutting edge -- and helps maintain our competitive position in world markets.

Subcommittee Questions

Having laid a groundwork of policy direction, I will answer each of the questions posed by the subcommittees.

1. Merger of FAS and the functions of the former OICD into ITS.

-- The merger does not overburden management resources; indeed we expect savings in administrative costs.

-- It makes good sense to unite the major international efforts of the Department, to provide greater coordination and synergism than in the past. With the addition of the technical assistance elements of the former OICD, we will be in a better position to "package programs" in selected markets.

-- The function of the former OICD brings to ITS a renewed emphasis on the strengthening of overall bilateral and multilateral agricultural relationships -- an increasingly important factor.

-- On a more personal note, the cross-fertilization of FAS and the personnel of the former OICD will enrich the employees of both organizations.

2. Does FAS identify new markets?

-- Yes.

-- Identifying the growth markets isn't the hard part -- knowing how to develop them is the challenge. Our analysis indicates that countries of the Former Soviet Union (FSU), where we are concentrating very large resources, would not return to a growth trend for some years. While these countries are important for long-term growth, we need to also focus on southeast Asia, Latin America and elsewhere for quicker returns.

This is an easy judgment. What we don't yet know is what changes in our various export and promotional programs will best capitalize on the new circumstances in these markets. The trade and investment program and agribusiness information center obtained from the former OICD will assist in this determination.

3. Budget constraints.

-- There is no question but what American agriculture needs is more aggressive exporting. This is the growth engine for U.S. farm income and agriculture generally. Where else do we see growing -- not saturated -- markets?

-- All elements in FAS support one another -- I can't say at this point whether we can

eliminate specific export programs, or downgrade one or another function without hurting the overall mission achievement. I think we can accomplish savings in the spirit of the NPR by working more efficiently and effectively.

-- We need to work closely with you on some of these choices, sharing views where difficult decisions are required -- especially where possible budget reductions or reallocations affect different commodities or parts of our export trade disparately.

4. <u>New approaches to emerging markets</u>.

-- This is a particular goal of Secretary Espy. He has charged us with a thorough review of how we are using our export resources.

-- We need first of all to take a close look at the factors which make these markets different.

-- We will be working with the trade clientele that I cited above to get their input and ideas -- the importers in these countries, U.S. exporters, our cooperators.

-- We will examine both how our programs are structured and how they are targeted, to be sure that we achieve the best balance between putting new resources into these while maintaining our presence in more developed markets. I was impressed during the Secretary's visit to Asia with how effectively our cooperators are already targeting their resources.

-- Moving for a moment beyond the emerging markets, our export tools require a more generalized review as well because the 1995 Farm Bill will offer the best opportunity for making major changes. Many details of our programs and policies have accumulated piecemeal over time. In some cases we have not taken a comprehensive look at the whole

for some years.

The principles are clear that must guide our review:

* Moving exports effectively and supporting farm income;

* Protecting program integrity and minimizing program costs;

* Making our programs as user-friendly as possible.

* Providing better service to our diverse clients.

While each of our programs needs a review in preparation for the Farm Bill, let me lay out some priorities:

1. **Market Promotion Program** -- This process began in connection with the budget reconciliation exercise. We've made some changes in close consultation with the Congress. We are examining further changes to improve a program that undoubtedly has been a major success in expanding high value exports.

2. **Export Enhancement Program** -- If we are as successful as I believe we will be in concluding the Uruguay Round, the EEP will be scaled back and we will be focusing on targeting, restructuring, and necessary operational modifications.

3. **GSM-102/103** -- As our other major export tool, the credit guarantee programs also are priorities.

4. **P.L. 480, Title I Operations** -- As perhaps the oldest of our operational programs, it is certainly high time to look at our commodity and freight tendering functions.

-- In the cooperator and development programs, we need to look at other changes to improve efficiencies and insure we are working in countries where we derive the most benefit from scarce resources.

-- Aside from the merger of FAS and the former OICD, these program reviews will be our first formal efforts at reinventing government with respect to our export mission. The Department will be convening small task forces to take a top-to-bottom look at these programs in the coming months. We will seek input from farmers, program participants, other agencies, and of course, the Congress.

5. The Trade Policy Coordinating Committee (TPCC) and USDA Export and Promotion Programs.

As your invitation indicated, we had a Long-Term Agricultural Trade Strategy (LATS) long before the TPCC was inaugurated. The strategy as developed has been a policy umbrella under which we have operated for a number of years.

Many of the initiatives I have discussed here today derive from the evolution of our strategy under the guidance of Secretary Espy and Under Secretary Moos. Agriculture is an active participant in the TPCC, and in this process we are anxious to demonstrate the value of each of the export programs to not only increase exports, but to build and maintain a strong agricultural economy.

American agriculture is doing its share to help the U.S. economy. Our agricultural exports create more than half a million off-farm jobs in financing, storage, packaging, processing, merchandising and shipment. Many of these jobs are in rural America and therefore contribute to the Administrations's goal of enhancing rural community and economic development. Approximately 300,000 jobs are created on the farm to produce food for export.

At the farm level, agricultural exports provide producers with an expanded market

and, therefore, a better income. On average, the output from 30 percent of U.S. harvested acreage is destined for export markets. These exports generate about one-fifth of farmers' cash receipts.

In this connection, let me close on a theme Secretary Espy emphasized in the symposium he held a few days ago with all the Department's top managers. There, he stated that his interest in being Secretary of Agriculture stems from the fact that this Department touches the lives of all Americans. One thing we too quickly forget is that food is the biggest bargain in America in terms of percent of disposable income. Americans spent only 11.2 percent of their disposable income on food in 1992, down from 16 percent three decades ago and over 20 percent in the early 1950s. Contrast that with the health care cost crisis, and we must conclude that American agriculture is doing a good job in achieving production efficiencies that benefit U.S. and foreign food consumers.

Messrs. Chairmen, all of the Department's programs contribute to this success story. It is too easy to forget that the agricultural export programs are absolutely critical to maintaining income for American producers and ensuring stable food prices for our consumers. That is the story we need to tell. These programs have performed well, but we intend to improve them and expand exports beyond their current levels.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Foreign Agriculture and Hunger, Committee on Agriculture, and the Subcommittee on Information, Justice, Transportation and Agriculture, Committee on Government Operations, House of Representatives

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U.S. DEPARTMENT OF AGRICULTURE

Improvements Needed in Foreign Agricultural Service Management

Statement of Allan I. Mendelowitz, Managing Director
International Trade, Finance, and Competitiveness
General Government Division

GAO/T-GGD-94-56

U.S. DEPARTMENT OF AGRICULTURE:

IMPROVEMENTS NEEDED IN
FOREIGN AGRICULTURAL SERVICE MANAGEMENT

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, MANAGING DIRECTOR
INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS
GENERAL GOVERNMENT DIVISION
U.S. GENERAL ACCOUNTING OFFICE

The current tight budget environment and the substantial resources devoted to agricultural export programs make good management of these programs critical. The U.S. Department of Agriculture's (USDA) Foreign Agricultural Service (FAS), however, frequently has not effectively managed its programs. For instance, under the Market Promotion Program, FAS turns government funds over to not-for-profit associations that either run market promotion programs themselves or pass the funds along to private-for-profit companies to spend on their own market promotion activities. FAS retains little control over the funds provided to the private-for-profit companies. Furthermore, FAS does not obtain assurance that market development activities would not have been undertaken without government assistance; and, FAS has not established a limit on the number of years that a participant can receive assistance before it is expected to assume the cost of its own market promotion.

FAS expends a significant amount of resources on reporting about overseas developments that affect U.S. agriculture. The reports are expected to support USDA programs, to assist FAS in its trade policy work, and to disseminate information to industry about foreign competition and demand for U.S. farm products. Much of the reporting, however, is put to little use either by USDA or the U.S. agricultural industry.

Strategic planning is very important for the efficient management of government resources. Under the Food, Agriculture, Conservation, and Trade Act of 1990, USDA was required to develop a long-term agricultural trade strategy (LATS) to guide the implementation of federal programs designed to promote the export of U.S. agricultural commodities. GAO's review indicates that LATS does little to set meaningful priorities for agricultural export programs and resources. GAO believes that additional work will be necessary to make LATS a useful management tool.

In September 1993, the interagency Trade Promotion Coordinating Committee (TPCC) released a report on its efforts to develop a governmentwide strategic plan for export promotion programs. GAO is concerned with the lack of USDA involvement within the governmentwide strategy, particularly since USDA receives the bulk of the federal export promotion budget.

Mr. Chairmen and Members of the Subcommittees:

I am pleased to be here today to testify before these Subcommittees on the operation of the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA), including its management of export promotion and assistance programs, its use of resources in reporting on agricultural developments overseas, and its strategic planning. FAS administers a variety of programs to promote the sale of U.S. agricultural products overseas. FAS also reports on agricultural developments abroad, acts to reduce barriers to U.S. exports, and conducts various market development activities.

NEED TO IMPROVE MANAGEMENT OF PROGRAMS

FAS manages about $10 billion a year in agricultural export programs. These programs are designed to increase U.S. agricultural exports by maintaining and developing foreign markets for U.S. agricultural products. These programs include the Export Credit Guarantee programs; the Market Promotion and Foreign Market Development (Cooperator) programs; the Export Enhancement Program; and title I of Public Law 480.

The current tight budget environment and the substantial resources devoted to agricultural export programs make good management of these programs critical. In the past, we have testified before Congress concerning the weaknesses in these programs and have urged greater management controls. While improvements have been made, we continue to have concerns about management weaknesses that diminish the efficiency and effectiveness of FAS programs. Better management of these programs would improve the return on taxpayer funds.

Export Credit Guarantee Programs

GAO has reported in the past on poor management controls within the Export Credit Guarantee programs. These programs, which include the General Sales Manager programs (GSM)-102/103, are aimed at increasing the willingness of U.S. banks to finance export sales of U.S. agricultural products. Financial institutions in the United States provide financing for individual commodity sales to foreign buyers. Based on legislative requirements, USDA makes a total of over $5 billion in government loan guarantees available each year to foreign buyers of U.S. agricultural commodities. Since the programs began in the 1980s, USDA has paid out about $5.7 billion to banks on loans in default, and we estimate significant future increases in defaults if high-risk foreign buyers continue to participate.

Past operations of the Export Credit Guarantee programs have incurred significant losses because USDA has provided a large amount in guarantees to high-risk countries, such as Iraq and the successor states of the former Soviet Union. Guarantees had been extended to such high-risk countries on the basis of market development concerns and foreign policy considerations. Our prior testimonies have detailed the weaknesses and difficulties in managing these programs. FAS has traditionally had a limited role in monitoring these programs despite significant government exposure to large financial losses.

Market Promotion Program (MPP)

MPP was created to encourage the export of U.S. agricultural products through funding for consumer-related promotions of high-value generic and brand-name products. FAS turns the government funds over to not-for-profit associations that either run market promotion programs themselves or pass the funds along to private-for-profit companies to spend on their own market promotion

activities. FAS retains little control over the funds provided to the private-for-profit companies. In the past, we have identified a number of management problems in the administration of this program, including funding "additionality" and participant "graduation."

First, concerning funding additionality, FAS has no assurance that MPP funds actually increase the overseas promotional activities of participants in the program. FAS does not require participants to demonstrate that funds under the program will be used to increase promotional activities. The lack of such a requirement affords participants the opportunity to substitute government funds for promotional expenditures that they would possibly have undertaken with their own funds. FAS has no way of knowing the extent of this practice. In our past work, we found some examples that suggest that this situation exists. We believe that the participation of firms in the program with significant prior export experience and with multimillion-dollar advertising budgets suggests that the opportunity to substitute government funds for their own exists, and greater controls are needed over the use of these program funds to ensure increased promotional activity.

An example of potential funding substitution may be found by looking at the federally authorized commodities research and promotion programs, commonly known as "check-off" programs. Under check-off programs, designated producer organizations collect millions of dollars from producers and growers of agricultural commodities such as cotton, beef, and soybeans. The bulk of check-off funds are used to promote the product in the United States, while relatively small amounts of check-off funds are used to promote overseas sales. Because FAS pays for overseas market promotions for these commodities through the Market Promotion and Cooperator programs, the producer organizations have less need to use their own check-off funds for

overseas promotions.

Second, concerning graduation, FAS has no restrictions on the length of time that participants can continue to receive MPP funds. In the Food, Agriculture, Conservation, and Trade Act of 1990, Congress directed FAS to evaluate each MPP participant to determine whether continued program assistance was necessary for market maintenance, but FAS has not developed specific criteria to make the required evaluations. We believe that providing for the phaseout of government funding would make clear that these funds are not an entitlement. Furthermore, such action could increase the number of firms that benefit from the programs and would give the taxpayer greater assurance that these funds are being used to help firms enter new markets.

Program evaluations are important to ensure that government funds for export promotion activities are used effectively. We recognize that the large number of variables that determine export levels makes it extremely difficult to demonstrate a one-to-one relationship between program-funded promotion activities and increased exports. But additional evaluations could be done. We found that few program evaluations were completed from fiscal years 1986 through 1992. In general, FAS has acknowledged weaknesses in this area and the need to conduct a greater number of evaluations. FAS representatives cited limited staff and travel funds as factors accounting for the small number of program evaluations.

OVERSEAS STAFF RESOURCES BURDENED BY HEAVY REPORTING REQUIREMENTS

Especially in a time of budgetary constraints, FAS needs to assess how effectively it uses its resources. Our ongoing review of FAS resource utilization indicates that FAS devotes substantial resources to reporting on commodities abroad. FAS

estimated, based on a 1991 survey of its overseas posts, that over one-third of its overseas staff resources were devoted to reporting. However, much of its reporting is put to little use. We believe that FAS can better utilize its resources by significantly reducing such reporting, thereby allowing its overseas attaches more time to devote to developing markets for U.S. commodities and to engage in trade policy activities.

FAS' overseas attaches submit about 2,300 scheduled commodity reports a year from around the world. The reports are intended to support USDA programs and to assist FAS in its trade policy work. In addition, the reports are used to prepare commodity circulars that provide the U.S. agricultural industry with information about competition and demand for U.S. farm products.

However, not all of the commodity reporting is useful to either USDA or the U.S. agricultural industry. For example, FAS requires comprehensive reports on honey from seven of its overseas posts. These reports are used primarily to inform U.S. honey producers about potential exports from foreign countries to the United States. Nearly all the honey producers we spoke to said they have other sources of information that they rely on to monitor foreign competition in the U.S. market. Moreover, the honey reports play virtually no role in increasing U.S. exports, partly because FAS does not report on the honey situation in many of the U.S. export markets.

FAS also spends significant resources reporting on coffee from around the world, even though the United States exports virtually no U.S.-grown coffee. FAS says that reporting on world coffee production services U.S. coffee roasters and helps smooth out prices. But the roasters we spoke to said they have limited need for USDA's data. They rely more on their trade contacts and on other private sources of information. Many of those involved in coffee trade said that if USDA were to reduce its coffee

reporting, private reporting firms would quickly fill the gap.

FAS reports on the cotton situation in 39 countries. We found that the cotton reports do serve to support USDA programs and provide data helpful to U.S. exporters. However, we also found that the reports often contain far more detail than is necessary to meet their objectives. FAS has recently introduced "truncated reports," in which attaches provide only the basic data and a few pages of narrative discussing major changes; 8 of its 39 cotton-reporting posts are allowed to do truncated reports. Our discussions with the users of the cotton reports indicate that FAS could considerably expand the use of truncated reporting and still adequately meet the information needs of both USDA and the cotton industry.

Furthermore, FAS does not make the most efficient use of the information it collects. Despite the great advances in information technology that have occurred over the years, FAS still communicates information to U.S. agriculture primarily through written circulars. FAS makes only limited use of electronic information technology to deliver data to industry. Industry users told us that the data that are available electronically are often not easily accessible or timely.

FAS has recently undertaken a major review of its reporting and has tentatively proposed a new reporting schedule. The new schedule cuts the reporting burden for some of its overseas posts but increases reporting for others. In addition, it shifts some reporting from bulk commodities to high-value products, an increasingly important share of agricultural exports.

We believe the new schedule is a step in the right direction in its efforts to streamline reporting requirements and make them more useful. However, we think that FAS' reporting review did not go far enough. The agency did not adequately evaluate the

need for each of its commodity reports; FAS did not systematically communicate with the users of the reports in U.S. agriculture to learn the true extent of their information needs. U.S. agriculture has at its disposal an increasing number of private sources of basic information on world agriculture. In a time of budgetary constraints and increasing global competition, FAS cannot continue to collect information that is nonessential, rather than devote its resources to effectively carry out its other export promotion responsibilities.

NEED TO IMPROVE STRATEGIC PLANNING

Strategic planning is very important for the efficient management of government resources. My final remarks will address the need for FAS to improve its strategic planning, particularly through its Long-term Agricultural Trade Strategy (LATS), and its participation in the Trade Promotion Coordinating Committee's (TPCC) governmentwide export promotion plan.

Long-Term Agricultural Trade Strategy

Required under the Food, Agriculture, Conservation, and Trade Act of 1990, LATS was intended to guide the Secretary of Agriculture in carrying out federal programs designed to promote the export of U.S. agricultural commodities. Among other things, the act called for the designation of priority growth markets and the development of country marketing plans, which set forth strategies for these markets.

USDA submitted LATS to Congress in January 1993, about 15 months late. FAS stresses that LATS is a guide for USDA's efforts to promote agricultural trade. It is not intended as a form of managed trade that sets out export strategies for the private

sector. According to FAS, LATS describes general goals for agricultural trade, the resources USDA can utilize, and the tactics it can employ in facilitating trade.

LATS was developed largely within FAS, with little input from elsewhere in USDA or from other federal agencies. The document includes narrative on (1) trends in U.S. market share, (2) prospects for sales to developed and developing countries, and (3) USDA strategies for facilitating exports. This narrative discusses areas such as trade policy, domestic programs, and export programs.

In our opinion, LATS needs additional work to become a useful management tool. Our review indicates that LATS does little to set meaningful priorities for its programs and resources. For example, LATS calls for "the fullest possible use of all export assistance programs" without identifying which programs or activities are critical or most important.

The compilation of country marketing plans was also completed in January 1993. The compilation listed the top 15 country markets for bulk commodities and the top 15 for consumer-oriented products. Between three and nine priority commodities were listed for each country, with a short discussion of ways of maintaining or increasing U.S. exports of each commodity. The document did not prioritize the country markets nor did it prioritize commodities within each of these countries. In our view, more specifics are needed on priorities and plans in order to enhance the effective use of the U.S. export promotion dollar.

Governmentwide Strategic Planning for Export Promotion

In September 1993, the Trade Promotion Coordinating Committee released a report, "Toward a National Export Strategy," on its

efforts to develop a governmentwide strategic plan for export promotion programs. TPCC has representation from 19 federal agencies, including USDA. The Export Enhancement Act of 1992 requires TPCC to produce a plan that, among other things, establishes priorities for federal export promotion, sets out a strategy for federal export promotion activities, and proposes a unified budget for federal export promotion programs.

While the report included significant, positive steps to strengthen federal export promotion efforts, key components have yet to be developed in areas where TPCC was unable to reach consensus, namely governmentwide priorities and a unified export promotion budget. The report does make a firm commitment to complete the tasks within the context of the 1995 budget.

To be successful, TPPC's effort, from here on, will require continued, sustained, high-level administration involvement and support, and the active participation of the agencies with the preponderance of the government resources devoted to export promotion programs: the Department of Commerce, the U.S. Export-Import Bank, the Small Business Administration, the Agency for International Development, and USDA. We are concerned, however, with the apparent lack of USDA involvement in the governmentwide strategy. USDA is hardly mentioned within the text of the TPCC report. This absence is particularly troubling since USDA receives the bulk of the federal export promotion budget. It will be very difficult for TPCC to fulfill its legislative mandate without the full participation and support of USDA.

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Mr. Chairmen and Members of the Subcommittees, this concludes my prepared statement. I will be happy to answer any questions you may have.

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Statement
of
Karl Johnson
President, National Pork Producers Council
on behalf of the
Export Processing Industry Coalition
before the
Subcommittee on Foreign Agriculture and Hunger
and the
Subcommittee on Information, Justice, Transportation and Agriculture
November 10, 1993

Mr. Chairman and Members of the Joint Subcommittee:

I am Karl Johnson, a pork producer and grain farmer from Mankato, Minnesota and currently serving as President of the National Pork Producers Council (NPPC). I appear at this hearing today on behalf of the Export Processing Industry Coalition (EPIC), an organization comprised of the Corn Refiners Association, the Millers' National Federation, the National Oilseed Processors Association, the National Pork Producers Council and the Industrial Union Department, AFL-CIO.

The Export Processing Industry Coalition (EPIC) represents American industries and labor unions that are committed to expanding the U.S. share of the growing world market for processed agricultural exports.

Mr. Chairman, we commend you for holding this joint hearing on the mission, focus and future direction of Foreign Agricultural Service (FAS) and its role in assisting to export agricultural commodities in the year 2000.

As the members of the subcommittees are aware, the Clinton Administration's proposal to restructure USDA would combine a number of related services and functions, thereby reducing the number of agency administrators. Specifically, in the area of trade reorganization, the Foreign Agricultural Service (FAS) and the Office of International Cooperation and Development (OICD) would be combined into an International Trade Service Agency (ITSA).

USDA's role in trade policy development and objectives in export program implementation is in urgent need of reorganization. The Administration's restructuring effort provides an ideal opportunity for a thorough review of the missions assigned to FAS and how they can be updated to reflect realities of the modern marketplace. In particular, Department programs and priorities need to be refocussed on improving U.S. competitiveness in the fast-growing world market - representing more than $220 billion in 1992 - for processed and high value agricultural products.

Over the past 40 years, FAS has assumed various roles reflecting U.S. farm

programs and policies. These roles have included: (1) Disposal of commodity surpluses generated by farm programs; (2) partnership with the private sector in foreign market development and export promotion efforts; (3) administration of export programs to achieve goals ranging from marketplace competition to pressuring trading partners to liberalize trade policies and practices; and, (4) reporting of domestic and foreign agricultural trade data.

The philosophy underlying these various roles was summed up in the Long-Term Agricultural Trade Strategy (LATS) released by USDA in January 1993: "LATS aims at creating an environment where the natural comparative advantages of U.S. agriculture can prevail." While "there is a clear societal consensus that government has a legitimate role in agricultural trade," that role should be defined as "assisting rather than managing trade."

LATS does not define a middle ground where USDA could participate as a partner with the private sector in developing export strategies to maximize the impact of mutual efforts to expand agricultural exports. According to USDA, "the statute [requiring LATS] contemplates a strategy <u>for the government</u>, not for the private sector."

The problem with this "hands off" approach is that it does not recognize the more aggressive role which governments of our competitors take in promoting exports. The governments of the European Community (EC) and other exporting countries have sophisticated working relationships with their food processing industries which identify and target growth markets for high value products through marketing strategies involving sales and credit incentives as well as promotional activities and market access initiatives.

From our perspective, the very future of American agriculture and rural development are dependant on an aggressive and effective value added export trade policy that provides the tools to allow U.S. value added and high value products such as vegetable oil, wheat flour, corn gluten meal and red meat to compete in foreign markets. Without the implementation of an aggressive value added agricultural product export policy -- and if the status quo is allowed to continue -- the future of U.S. agriculture will continue to belong to our competition.

In the absence of a relationship setting similar priorities established and using aggressive marketing efforts planned and implemented jointly by government and industry, the U.S. will continue to trail its competitors in economically potent and fast-growing value added agricultural markets. The results of the current approach are clearly unacceptable.

While the U.S. remains the largest world supplier of bulk commodities, this market has remained stagnant at about $60 billion annually for over 10 years, and is showing signs of actual shrinkage. The U.S. share of value added and high value product trade (including intra-EC) remains at less than

10%, even as sharp growth in this sector has overtaken the value of U.S. bulk exports. Critics in the Commerce Department are pointing out that, while USDA gets 80% of export promotion funding, agricultural trade represents only 10% of the value of U.S. exports. While our critics knowingly include all government humanitarian, credit guarantee and concessional sales initiatives in their calculations, they are tarnishing the only sector with a positive balance of trade for the United States as they attempt to grab the limited resources available for our efforts.

There is a pressing need for USDA's export policies to reflect the reality that world agricultural trade is now driven by demand from global consumers for high value products. If the U.S. is to compete effectively in these markets in the 21st century, FAS must reorient its mission, focus, programs, and relationship with the private sector to marketing products consumers want to buy, rather than simply disposing of bulk commodities, surplus commodities or commodities that U.S. producers want to grow.

The fact that high value products (HVP) now represent virtually all of the growth in the value of world agricultural trade provides sufficient reason for the U.S. to refocus its export policies and programs. However, the benefits derived from HVP exports are even more compelling. These benefits include:

The Economic Research Service (ERS) indicates that each dollar of HVP exports generates $1.63 in additional economic activity, compared to $1.08 for each dollar of bulk commodity exports: Every billion dollars in HVP exports creates an additional 23,000 new jobs in the U.S. economy. While current U.S. farm exports support an estimated 900,000 jobs in direct and related industries, the much higher percentage of HVP exports by the EC supports nearly 2.5 million jobs: Increased personal and corporate incomes from HVP exports raises the tax base for local and state governments as well as increasing federal revenues; exports represent additional employment of people and additional income rather than a diversion of these resources from other sectors of the economy: HVP exports maximize the positive contribution agriculture makes to the U.S. balance of trade.

Mr. Chairman, the Export Processing Industry Coalition, offers the following five specific recommendations related to the proposed restructuring of FAS into a new International Trade Service Agency (ISTA) to refocus U.S. agricultural trade priorities and export promotion activities on the dynamic growth in the high value/value added agricultural export market:

1. The Administration must identify the urgent need to increase the U.S. share of world trade in processed and high value agricultural products as a key national priority, and ask USDA to spearhead a campaign to double the U.S. share of world trade in processed and high value agricultural products by the year 2000.

2. The "multiplier" formulas developed by ERS to measure the economic

benefits of various agricultural exports must be incorporated into the decision-making process for allocating USDA's export resources. It is imperative that we measure, compare and apply the direct, indirect and induced economic benefits of exporting value added agricultural products when making export policy decisions.

3. The mission statement of the new ITSA must reflect realities in the global marketplace, emphasizing products where demand is growing and responding to the aggressive role of competitor governments in facilitating exports of these products. These activities should be extended to include competing for domestic U.S. markets for high value products.

4. The present commodity division structure of FAS should be complemented by creation of a World Market Analysis Division. In addition, an Export Coordination Division should be established to facilitate cooperation and support among USDA and non-USDA agencies with responsibility for trade policy and program implementation. Staff and funding for these new units could be drawn from the Agriculture and Trade Analysis Division of ERS.

5. The Secretary should establish a Government/Industry Task Force on Agricultural Trade to provide a working partnership between USDA and the private sector on export competitiveness. The Task Force would identify domestic and foreign market opportunities and develop specific strategies for making U.S. products competitive. We would suggest that the Task Force be chaired by the Secretary's representative and its initial term could be limited to three years.

The back row status of the United States in the value added agricultural product sector is by no means an accident. Our competition is fierce. From politics to policy to programs, our foreign agricultural competitors are delivering a knockout punch to U.S. agriculture in the fight for world market share in value added and high value agricultural exports.

Mr. Chairman, members of the joint subcommittee, the vision for tomorrow is clear. The future of American agriculture is in producing, processing and exporting value added and high value agricultural products. The U.S. must revitalize its agricultural trade policies and programs, or be prepared to face the obvious and inevitable outcome. We have staked the competition a significant advantage. We must now move aggressively and decisively to earn back our share of the world market. We believe that the specific recommendations we have shared with this joint subcommittee today are great strides in reorganizing FAS into an effective and responsive International Trade Service Agency capable of meeting the challenges of the 21st century.

Thank you for the opportunity to testify on behalf of the Export Processing Industry Coalition on this important matter.

STATEMENT OF ALLEN A. TERHAAR
NATIONAL COTTON COUNCIL OF AMERICA

Mr. Chairman, members of the Committee, on behalf of the National Cotton Council of America it is a pleasure to be able to testify before you today on the mission of the U.S. Department of Agriculture's Foreign Agricultural Service (FAS)

Let me offer some general statements on the mission and workings of the FAS, and then more specifically answer the five issues posed in the Committee's invitation to testify.

In my experience, the Foreign Agricultural Service exhibits some of the characteristics that effective government agencies should have:

- a clear purpose
- name recognition at home and abroad
- a sizeable budget
- close ties to the public and to the private sector it serves
- dedicated and experienced people

What FAS seems to lack currently is.

- clear direction
- an ability to set priorities
- the ability or latitude to capitalize on its strengths
- high morale

I was struck when reading through the report of the Trade Promotion Coordinating Committee entitled Toward a National Export Strategy that U.S. agriculture and the Foreign Agricultural Service already have many of the features called for in the report. As a matter of fact, U.S. agriculture has been doing these very things, and doing them well, for a number of years -- and that is in large part responsible for the success of U.S. agriculture in the export arena. It is why we have a $13 billion positive trade balance in agricultural exports while U.S. manufactured goods run a $140 billion negative trade balance. It is why other sectors of the economy are finally trying to emulate agriculture's success.

Toward a National Export Strategy provides 65 specific recommendations organized under six underlying themes. Let me cover the six underlying themes from the TPCC report and describe how FAS measures up:

The first of the six underlying themes in Toward a National Export Strategy reads "Combine Functions: Carefully define the client groups and their needs for export promotion services, focusing specific agencies on meeting particular customer requirements ...". This describes FAS to a tee. Throughout its 40-year existence FAS has had a clear client group -- U.S. agriculture -- and has developed an array of export promotion services and a great deal of experience meeting their particular customer

requirements at home and overseas. In fact, there have been periodic accusations that FAS is perhaps too close to its client group -- a seeming contradiction to the recommendations coming from the TPCC.

Point two reads "**Allocate Resources Strategically**: Develop a unified export promotion budget that will permit the US to set clearer priorities and serve US commercial interests more efficiently". There is a lot of mention in the TPCC report of creating "one-stop shops" that will provide all of the federal export promotion and trade finance programs under one roof.

Mr. Chairman, I would submit that FAS is the original "one-stop shop" for the full range of agricultural commodities and processed products. If you want statistics -- FAS has the premier database on world supply and demand of most agricultural products. In fact, other countries often do not bother to keep their own supply and demand information because FAS's is better than anything they could produce locally. Want financing? -- FAS has everything from a $5.5 billion per year credit guarantee program, to 30-year low-interest loans, to food and feed assistance programs. Have problems with price competitiveness because of unfair foreign competition? -- FAS has programs to ensure U.S. price competitiveness (EEP, COAP, DEIP, SOAP). Need help with contacts overseas? FAS has a network of attache and agricultural trade offices located on the spot in more than 80 posts and covering more than 100 countries. Need trade leads? -- FAS has hard copy and electronic dissemination of Trade Leads and Buyer Alerts, along with computerized delivery of an array of additional trade information.

I could go on and on with the services FAS provides all under one roof! I have seen companies go to other U.S. government agencies to explore alternative financing or export promotion assistance, only to come back eventually to FAS because they could indeed get better service and the full range of services from a single agency dealing with products they were familiar with and interested in facilitating.

Point three reads "**Involve the Private Sector**: Combine resources of the private sector and state/local governments with those of the federal government wherever possible to expand and improve service and financing...". For all 40 years of its existence FAS has worked hand-in-hand with the Cooperator Market Development Program; a coalition of product-specific and national trade associations, regional export groups, and the private producers and processors they represent for one single purpose -- to promote the exports of U.S. agricultural products. Other sectors have tried over the decades to emulate this highly successful public\private sector cooperation for export promotion and, to my knowledge, none has yet come even close.

Point four reads "**Advocate Aggressively**: Greatly expand official, high-level government advocacy for U.S. firms seeking contracts from other governments, and create mechanisms to level the playing field by effectively countering the advocacy practices of other governments". Mr. Chairman, U.S. agriculture has always enjoyed

an outstanding reputation overseas. Because of this, the official representatives of U.S. agriculture overseas, the FAS agricultural attaches, have always enjoyed easy access to the highest levels of government whether in developed countries or in developing countries. It is a level of access that most in the State Department and the Foreign Commercial Service have often envied, and sometimes stifled. In a number of cases where the U.S. was establishing or reestablishing diplomatic relations, it was the FAS attaches working with the U.S. private sector that helped provide the entree for those contacts.

Most of those agricultural attaches, backed by the FAS home office, have been extremely strong advocates of U.S. agricultural export concerns to the local governments or importing concerns. They have a heavy array of weapons in their arsenal -- food aid, export credits, commodity buydowns, technology transfer, and strong ties to the U.S. industries with whom they share mutual goals. In some cases, the rest of the U.S. government representatives abroad are strong co-advocates for U.S. agricultural exports; but, in many cases, they are impediments or at best uninterested. We need to ensure that FAS, working closely with USTR and the State Department and U.S. embassies, can continue and enhance its advocacy for market access and sales.

Point five reads "**Measure Performance**: Develop and implement performance measures to guide decisions and improve strategic focus". This is truthfully one that FAS has struggled with. FAS has produced a number of success stories, as have the Market Development Cooperators and the private companies participating in export programs and exporting U.S. bulk or value-added products. Certainly, the overall statistics seem to speak for themselves -- $42 billion in overall agricultural exports in 1992, and a positive trade balance of $13 billion. Yet this does not seem to quiet the detractors of the FAS-administered programs. So far as I know, it is the most audited, increasingly most regulated and often most criticized set of programs around -- and often the most successful.

Mr. Chairman, I would submit that the FAS inability to develop a highly-structured "comprehensive strategic plan" for U.S. agricultural exports is in some respects the nature of the business. While there is clearly a need for an overall set of objectives, there is also a need for flexibility. Successful exports are ones that respond to a highly dynamic marketplace and the needs of the customers. If there is a government strategic plan that has ever done this, I have not yet seen it. Instead, the successful government export assistance program is one that can respond quickly and adequately to the ever-changing opportunities identified by the customer overseas and an agile and competitive U.S. private sector. The best plan is the compilation of those individual front-line company plans to export their products.

Point six reads "**Reduce Export Controls**: Reduce export controls and other government-imposed obstacles to exports, consistent with US national security, foreign policy, and health and safety interests". Agricultural exports certainly face different

obstacles than exports of computers, airplanes or other high technology industries, but the agricultural sector has certainly not been immune to U.S. Government imposed export controls. Grain and soybean embargoes in the 1970's and 1980's come quickly to mind, and we are still suffering the adverse consequences of those poorly conceived actions.

To my knowledge FAS was never consulted on these decisions, and better decisions may have been made if the people most directly monitoring that trade had been consulted. Other than the still-tarnished reputation of the U.S. as a reliable supplier, those episodes are history. However, those experiences would indicate that there is a role for and a reason to consult an agency like FAS in making decisions on export controls of any nature. These are people who know the markets, the products, and have excellent contacts with the private sector to gather the best possible information to bring to bear on a government decision.

FAS is an ideal type of agency we should have representing a major U.S. industry -- in this case, U.S. agriculture. However, improvements could certainly be made. Mr. Chairman, I now would like to address the issues raised in your invitation to testify, elaborating on some on areas of possible improvement.

Question: Does the consolidation of Office of Cooperation and International Development (OICD) and FAS into the International Trade Service improve program delivery or strain the system?

This question would best be broken into two parts: is it a good to consolidate FAS and OICD?; and the title "International Trade Service" agency.

Yes, consolidation of FAS and OICD improves program delivery. If we think back to the TPCC report and a "one-stop shop", OICD is a rare exception of areas within the USDA dealing with foreign agricultural programs that do not come under one agency. Some of OICD's programs, such as the Cochran scholarships, complement ongoing FAS/Market Development Cooperator efforts and, in fact, rely on FAS attaches to help identify candidates for the scholarships and often on market development cooperators to provide training. Some, such as marketing training seminars overseas duplicate that effort. Others, such as agricultural production training or efforts to teach other countries how to sell their produce to the United States, openly conflict with the FAS mission. The personnel in OICD offer an opportunity to improve FAS management of the enormous U.S. export programs FAS is charged with. It will only improve program management, however, if FAS/OICD can jettison the activities that are clearly not within the mission of enhancing U.S. agricultural exports. These types of activities may comprise as much as 50 percent of OICD programs.

In contrast, the name "International Trade Service" is a bad idea. For 40 years FAS has used its current name and has strong and clear name recognition in the U.S. agricultural community and overseas. It is a highly respected agency and is clearly identified with its mission and clientele -- i.e. U.S. agriculture. Consolidating OICD under the title Foreign Agricultural Service is a sound idea.

Question: Does FAS have the tools to identify new markets and products and can the information be easily transmitted to producers and processors?

Again, the response is in two parts. Yes, FAS has the tools to identify new markets and products. Those tools primarily are in two forms -- the network of overseas personnel in U.S. embassies and agricultural trade offices, and FAS's close ties with the associations and private companies who deliver the products. A problem is that FAS has been squeezed on both those tools. The FAS field personnel, both American and foreign nationals, are the key link in the U.S. export chain. If one had to drop all other elements of FAS programs, the on ground resources overseas would be the critical ones to maintain in place. FAS has been generally responsive to moving into new markets and working with new products, in part because their close ties with the U.S. exporter sector alert FAS to the new opportunities, and vice versa.

FAS is the premier original data collector overseas, and gets this data speedily to FAS Washington. However, it is there that the system bogs down because of any number of reasons -- interagency publication process, lack of resources, regulation hindering more direct contact with the private sector, non-user friendly network intermediaries, etc. It is my opinion that some of the divisions in FAS are still more geared to an era of cold war intelligence, remote sensing and outmoded analysis and publications than they are to the needs of modern day assistance to exporters. The priorities should be first of all to get reliable, timely raw data and contacts information from the overseas posts, deposit the data into reliable databases, and get the raw data immediately to the U.S. private sector through user-friendly electronic dissemination. The private sector, whether that is an association or private company, is better able to analyze that information, further disseminate it to the general public and apply it to the real world of exporting than a government agency. The key bottlenecks in this process at this time are the requirements to hold information pending lockup and publication, and the USDA outmoded contract services for dissemination. In this regard, I would like to call attention to the October 26, 1993 testimony of Mr. Leslie Stroh before the House Committee on Small Business on the TPCC report <u>Toward a National Export Strategy</u>:

> "Information needs to be collected, collated, edited and disseminated. For certain types of information, the US government is the best collector. It is not clear if the US government is the best agency for collating and/or editing it, and problems of dissemination are substantial".

Mr. Stroh has a number of comments on this topic in his testimony, and his comments are, for the most part, right on target.

Question: What aspects of FAS activities are critical to agricultural exports and which programs are expendable? This is always a difficult question. If, as suggested by the TPCC report, it is good to have a "one-stop shop" then it is hard to drop functions that FAS incorporates. I would suggest the following list of key FAS activities: primary data and trade intelligence collection; agricultural trade policy support and advocacy; market development cooperation through the private sector; export financing and concessional sales programs.

I would suggest at a minimum dropping the following: a large percentage of the commodity publications assembled in FAS Washington; most crop production estimates and forecasting not carried out by overseas offices; import quota monitoring; and obstructive regulatory procedures.

Mr. Chairman, I would further suggest that the current tightness in FAS budgets and the regulatory environment in which the agency and its private sector partners are working is forcing the agency to cut back on the very foundation of its success and future export competitiveness. It is forcing a cutback in the personnel on ground overseas who are the on-the-spot eyes, ears and proponents of U.S. agricultural products. This trend should be reversed.

Question: Does FAS need to consider new approaches or programs to provide the flexibility and access to developing and emerging markets? In the experience of the National Cotton Council, FAS has been quite flexible in its approaches and programs in order to address new market opportunities in developing countries and new market economies. FAS has been able to be relatively flexible because it has an array of programs on which to draw to meet the specific needs of a given new market or new customer. Additional flexibility within existing programs has sometimes been necessary, but that flexibility has normally evolved through close communication with the private sector. If there are limits to flexibility, they usually come through statute and are not within FAS's direct purview. Increasingly, flexibility is being further stifled by excessive regulation and audit burdens which drain a significant amount of energy and responsiveness from the agency and its private sector partners. In spite of this, I would generally give FAS high marks on flexibility and openness to new approaches.

Question: How has the Long-Term Trade Strategy been implemented by FAS and how do existing agricultural export programs fit within the National Export Strategy of the TPCC? I spent a good deal of time on FAS and the National Export Strategy in my opening remarks. FAS is the agency that can be held up as a 40-year successful, "one-stop shop" for a national export program for its sector.

Regarding the Long-Term Trade Strategy, as I suggested earlier in my comments, the government can best serve as a purveyor of information, a facilitator, and a market access advocate for the U.S. private sector that wants to and needs to export. In doing so, the government and its agencies need have modern enough technological and personnel capabilities to support the millions of communications and transactions that make up a competitive private market export program. The main emphasis should be on providing information to help the private sector plan, not on developing a government grand plan for the private sector.

Mr. Chairman, I would like to mention that the U.S. government and FAS are being reorganized or even "reinvented". In FAS's case, much of its market development work is carried out through the Market Development Cooperators and the private sector participants they represent. To my knowledge, neither the U.S. Agricultural Development Council (USAEDC), its members or the private sector companies were consulted by the agency or those reinventing FAS. If the U.S. government truly desires a successful National Export Strategy, it cannot hope to do so by leaving the private sector -- i.e. the people who actually export -- in the cold. From what I read of the testimony before the House Committee on Small Business, the actual export community was minimally consulted in the National Export Strategy report development as well. For that reason, Mr. Chairman, the National Cotton Council of America and its exporting members greatly appreciates this opportunity to testify before this Committee today and to have input into this process.

Mr. Chairman, I would like to conclude my remarks with a somewhat lengthy quote from a book entitled Manufacturing Matters (Basic Books, Inc., 1987) by Stephen S. Cohen and John Zysman, a book that was in part supported through the Office of Technology Assessment of the U.S. Congress:

> "Agriculture has by no means become an activity of the past, something easily and perhaps advantageously sloughed off. To the embarrassment of those who view the persistent cultivation of large quantities of soy beans, tomatoes, or corn to be incompatible with the image of a high-tech future, agriculture has sustained, over the long term, the highest rate of productivity increase of any sector. Total output has increased steadily, and the sector has been a vital generator of broadly diffused wealth and technical innovation. New

technologies, based on microelectronics and microbiology, promise to accelerate innovation and increase productivity in that oldest piece of the simple and misleading slice that underlies (and undermines) this rudimentary stages-of-development position. Hands-on technical mastery and direct control of a substantial and internationally competitive production capacity in agriculture is the source of a substantial quantity of high-end -- and also low-end -- industrial and service employment. Were that production to have moved elsewhere, sooner or later, those tightly linked industrial and service jobs would have followed".

Agriculture is a vital U.S. domestic and export industry. With solid public/private sector cooperation in the future, it will remain so.

Mr. Chairman, I started my testimony with the premise that agricultural exports are exceedingly important to the positive trade balance of this country, and furthermore that in the Foreign Agricultural Service we have an agency that embodies the success and track record that the industrial sectors are finally beginning to awaken to. Yes, FAS needs some refinement at the edges and a refocusing on what it does best. But most importantly, FAS and its programs and its partners need to be adequately funded and unburdened from the onerous regulatory environment and constant sniping of those who are perhaps jealous not only of its well-financed programs but of its very success.

Mr. Chairman, I would hope that the Administration and the Congress in striving to improve the services of FAS, reaches out to the private industry and farmers. FAS can only hope to be as effective in the next 40 years as it was in its first 40 years by clearly structuring itself to serve its client group -- the U.S. private sector that produces, processes and exports its bulk and value-added products to the world market. A solid public/private sector partnership is as key to the future of U.S. agricultural exports and farm income as it was to the past.

Thank you again on behalf of the National Cotton Council of America for this opportunity to provide this statement.

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STATEMENT OF THE U.S. FEED GRAINS COUNCIL TO
THE SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER AND
THE SUBCOMMITTEE ON INFORMATION, JUSTICE, TRANSPORTATION AND AGRICULTURE
REGARDING THE MISSION OF THE FOREIGN AGRICULTURAL SERVICE

Presented by Richard Krajeck, Vice President

November 10, 1993

Mr. Chairmen, thank you for the opportunity to present the views of the U.S. Feed Grains Council on the mission of the Foreign Agriculture Service (FAS). I am Richard Krajeck, Vice President of the U.S. Feed Grains Council.

The U.S. Feed Grains Council is a private, non-profit market development organization that represents the international market interest of U.S. producers of corn, sorghum, barley and their by-products, as well as, over 70 related agribusinesses. Our mission is to build profitability for the U.S. feed grains industry through the development and servicing of export markets.

We appreciate and welcome the opportunity to present our thoughts on the reorganization of the Foreign Agricultural Service. As a Cooperator with FAS for over 30 years, we have enjoyed a strong, symbiotic working relationship with FAS. The Cooperator program was established in 1955 and is a partnership between FAS and the private sector with the goal of building overseas markets for U.S. agricultural products.

Like all organizations with international programs, we find that the demands for a greater variety of services to meet a more competitive marketplace has seriously strained the limited resources of FAS and all international agricultural organizations.

Mr. Chairman, you asked in your letter of invitation that we comment on some specific areas of FAS organization. The fundamental question when examining any aspect of the operations of the Foreign Agricultural Service should be, "Does this program contribute to the profitability of U.S. agriculture through the development and servicing of export markets?" FAS programs that contribute to the increased profitability of U.S. farmers and agribusinesses should be strengthened, while programs that do not meet this standard should be restructured or discontinued.

Consolidation of FAS and OICD

We believe that the consolidation of FAS and the Office of Cooperation and International Development (OICD) is a positive step that will benefit both programs and strengthen the overseas missions of both organizations. While the missions of both organizations have been important and they have had their respective roles in supporting U.S. agriculture, there have been instances where there was duplication of effort and under rare circumstances, they have even operated at cross purposes. We believe that bringing both organizations under one administrator will increase the benefit to U.S. agriculture by improving the coordination of these agencies and refocusing the efforts of OICD to concentrate

on programs that are more trade oriented. The key to the creation of any new agricultural institutions or a new framework for existing institutions is to insure that expanding agricultural exports is in the forefront of its purpose and mission.

Using this standard, we seriously question the continuation of the Farmer to Farmer Missions within the new organization. Although these missions have helped promote better understanding of different agrarian cultures they have not increased U.S. exports of agricultural commodities or contributed to farmer profitability. In light of decreased overall funding for agriculture, this program is no longer justified.

We feel that the name of the new organization must continue to highlight its agricultural roots and future focus. We strongly recommend that the name be changed to the "International Agricultural Trade Service".

In addition, while it may not be in the purview of this Committee, I would ask that there be a far broader view taken of the government programs that need to be examined in the context of creating the better coordination of programs designed to benefit U.S. agricultural exports. It is critical that included in this review are the agricultural development programs being carried out by the Agency of International Development (AID) under the Department of State. The AID program is funded at $6.2 billion per year and has been primarily a foreign aid program that has been shaped by U.S. political and strategic interests during the cold war. Those days are over and the mission of AID and its role in developing agriculture must be reviewed.

There have been instances in the past where AID agricultural development programs have been totally counter to U.S. agricultural interests. In fact, many of the programs have seemed to operate in a vacuum and have ignored other federal agencies' objectives of increasing agricultural exports and eliminating trade barriers. AID programs funded by U.S. taxpayers have directly competed with U.S. agricultural export programs. There are countless examples, but let me list just two:

1) AID has worked with Latin American grains producers to promote the government implementation of price bands for feed grains that have resulted in high variable levies that have shut the United States out of these markets. AID continued to advocate price bands even after reaching an agreement with USTR and other federal agencies not to do so.

2) There are many cases in which AID workers have suggested that livestock producers, who are customers of U.S. feed grains, end livestock production and produce grains at costs substantially above world market prices.

The U. S. Feed Grains Council believes that during this time of program review, the mission and operation of AID definitely needs to be reviewed. We believe funding from this program could be better directed so as not to duplicate other agricultural programs, or worse yet, fund projects that provide direct benefits to our competition while proving disadvantageous to the U.S. agricultural sector.

Tools to Identify New Markets

The Council is very supportive of the efforts by FAS to identify new markets for U.S. agricultural commodities. We believe one of the strengths of the cooperator program has been the relationship between the participants and FAS. Due to the size and strength of the Council's overseas operations, our relationship with FAS is certainly different from those Cooperators that are smaller and do not maintain overseas offices and staff. In countries where the Council has offices we are able to provide FAS with assistance in completing its mission, while in countries were the Council does not have an office, FAS plays a critical role in our own market development activities.

The value of our relationship with FAS is that our staff is able to work with FAS both here and abroad to develop market information and goals, to broaden the range of contacts that FAS would be unable to maintain on their own and to share in the burden of U.S. company visitors and information demands. In this relationship we all benefit. We get the image of support of the U.S. government in countries where that makes our organization "legitimate" plus the support of FAS personnel. We in turn provide FAS with information, contacts, and services that help the foreign missions meet a wider variety of demands.

However, in those countries where the Council does not have offices or regular contacts, FAS has provided an invaluable service. Two examples are:

1) In the mid-1980's FAS helped the Council in establishing contacts and becoming familiar with the grains and livestock markets in the Soviet Union. Because of that initial assistance the Council is now able to operate independently with Russia and the republics of the Former Soviet Union.

2) When the Council began a major program in Algeria we were unaware of the political environment that we were entering. The Agricultural Attache was able to provide us with the diplomatic and political background necessary to establish our contacts and complete the project.

Additionally, FAS identifies trade barriers to US feed grain imports and then works through both their Washington and overseas offices to remove those barriers. FAS and the Council have worked together on countless occasions in preparing documentation for U.S. Trade Representative use in both bilateral and multilateral negotiations. This is a valuable service with the goal of eliminating trade barriers that deny or limit the importation of feed grains from the United States. The coordination and cooperation between the Council and FAS in the area of trade policy has increased our access to the Japanese industrial grain markets, compensated U.S. farmers for the loss of access to the Spanish and Portuguese markets and preserved our trading rights for corn gluten feed in the European Community.

While FAS has its own long-range planning capabilities, the Council supplements those efforts by producing a world FEED GRAIN demand model that projects supply and demand for feed grains into the next decade. I am including a copy of the 1993 report with my testimony. Additionally, through our network of overseas offices, the Council is able to identify short-term market trends and make recommendations for programs to take advantage of these changes to both the FAS overseas and Washington staffs.

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FAS Mission
Richard Krajeck
November 10, 1993

Programs that are Critical/Expendable

The services provided by FAS are broad and obviously designed to meet the needs from a wide range of agricultural commodities. Thus, any comments I would make are limited to those activities as they relate to the Council and the Cooperator program.

FAS overseas offices and the assistance of the Agricultural Counselors and Attaches are certainly critical to the Council and other Cooperators. FAS provides support in almost every country that is currently an importer of U.S. feed grains as well as those identified as potential future markets.The reporting component of FAS provides much needed world wide supply and demand information. It is this information and related trade leads that help us target and develop new and niche markets, as well as maintain a flow of feed grains into the world marketplace.

The philosophy of the Cooperator program was to bring together the resources of the private and public sector to develop markets for US agricultural products. This program was started with the belief that the U.S. would benefit from increased exports. As you well know, agricultural exports return a positive trade balance of $18 billion/year.

However, over the past 5-8 years the program has become adversarial rather than cooperative. The change in this attitude can be almost directly attributed to Congressionally requested audits of the General Accounting Office (GAO). The audits have said that the relationship between FAS and the Cooperators is "too friendly." Somehow, the spirit of cooperation between the private and public sector is now seen as "dirty" and that the Cooperators are out to loot the government.

As far as I am aware, in the nearly 40 years of the Cooperator program there has never been an major audit finding against a Cooperator or FAS for the mismanagement of funds. However, because of the mistrust created by GAO, we are both forced to increase our expenditures significantly just to audit the program. The money that is spent on audits and increased record keeping are then not available for market development activities. For the Council, there is no doubt that our audit component has increased by more than 3 fold in the last 6 years.

This runaway audit demand has significantly stifled both program creativity and our ability to respond to changing market conditions. The decision-making process in FAS regarding program audits rests within three areas whose demands we must simultaneously try to meet: the Feed and Grain Division, Compliance and Marketing Operations Staff (MOS). There appears to be a lack of coordination between these divisions which results in contradictions as rules pile on top of rules and we are nearly paralyzed by the resulting bureaucracy.

I am not for a minute advocating that auditing be eliminated: that would irresponsible to the U.S. taxpayer. But fiscal responsibility must be balanced with the excellent record of the program and the need to increase efficiency. Following are some examples of the additional burden that we have been forced to operate under:

1) The auditing requirements limit our flexibility in adjusting our marketing plans in terms of the time spent in each country, the number of participants in each activity and the funds available for supervisory travel. We are forced to maintain programs that were devised and approved by FAS in some instances 18 months prior to implementation.

2) In the process of writing and getting approval for marketing plans, FAS and the Council often reach agreement on exceptional circumstances that require a different interpretation of the regulations. These negotiated agreements are often challenged by the auditors months after the activities are completed.

As you can see from these examples, trying to comply with the rules is nearly impossible. We have already begun the planning process for our Fiscal Year 1995 marketing plans. We must finalize those plans by June of 1994, which means nearly 15 months before some of the activities will be implemented. There is no way that we can anticipate every market opportunity, every change that may happen to render a proposed project either unnecessary or the need to change it to better address market conditions. But, we are now into carrying out projects which may not achieve their maximum impact because the rules prevent us from changing it.

We need FAS to have strong internal controls that everyone understands and implements judiciously. Just that simple change could free up staff time and resources to increase overseas programming. But most importantly, we need consistency within FAS. We need to be given broad program direction that provides for audits but encourages flexibility to meet changing market conditions.

New Approaches/Programs

One of the most effective tools that FAS has at its disposal for increasing U.S. agricultural exports has been the GSM program. In many emerging markets the difference between buying from the United States or going to a competitor is the availability of credit. Mexico is an excellent example of the benefits arising from these programs. With the assistance of the GSM-102 program the United States has been able to develop our third most important market for agricultural exports.

But the world economy has changed rapidly during the past decade and the GSM program is no longer able to meet all the challenges in this new credit environment. This is especially true in Russia and the republics of the Former Soviet Union. In order to keep a U.S. presence in these markets and build toward the day they return to being cash customers we need credit programs that take into account the increased risk and uncertainty of these countries. One action that FAS could immediately take is to return to 100 percent principal guarantees rather than the current 98 percent if this is to remain a commercial program.

If it is decided to take Russia and the former republics out of the commercial GSM programs, then we need to look at a direct credit program such as direct loans using the CCC borrowing authority.

The credit worthiness criteria also needs to be revisited. We understand the need for a review process to assist in the determination of reasonable levels of credit, but this must be balanced against market development potential and policy objectives.

As countries move toward greater market liberalization we need to increase the private sector lines of credit to countries in the transition from state trading. This will support their privatization and trade liberalization efforts and strengthen the market for U.S. agriculture.

In total, the GSM program has been highly successful and has met the criteria of contributing to the profitability of U.S. agriculture through the development and servicing of export markets. However, as the international market changes and countries such as Russia go through the transition from one form of government or economy to another, we need to devise new GSM type programs to react to these challenges.

Long Term Strategy

To my knowledge, the Council was not invited to participate in the development of USDA's Long-Term Agricultural Trade Strategy (LATS) for export markets, nor have we been asked to comment upon it since its release in January 1993. We are therefore unable to comment upon how LATS has been implemented or its impact on our programs.

However, it is clear that existing FAS export promotion programs are working. FAS has helped us identify future markets and has increased the markets for U.S. agricultural products. The partnership between the public sector and the private sector in the form of the cooperator program is working.

In fact, it is the success of those efforts that are now the focus of other government agencies and industrial groups. It appears that everyone wants a piece of the funding that has supported these programs to increase their exports without understanding the value of the private sector itself coordinating its efforts. The National Export Strategy issued by the Trade Promotion Coordinating Committee appears to be an effort to erode agriculture's share of the export promotion and subsidy funds. It is important that the funding earmarked by Congress for agricultural export promotion remain under the control of the Department of Agriculture and not become part of a pot of funding that can be reallocated among competing interests. It is also important that Congress retain control of determining the relative importance of agricultural export promotion and the need for funding.

Mr. Chairman, we have appreciated the support of FAS and the Congress for many years, as well as the support from our members. I want to note that there is an increasing amount of attention being given to value added products. Most graphs, comparing the US to other countries show the US lacking in the development of markets for those products. However, I don't think that in our rush toward change and something new we should "throw the baby out with the bath water". If you look at the sales of U.S. agricultural exports, bulk commodities make up over 65% of the total exports. This is no accident. With increased competition, we are fighting harder than ever to maintain market share, even in those markets that have long been our customers. That does not mean that we, or FAS, should rest on the laurels of past successes, but it does mean we can not abandon bulk markets just because value added markets are currently "hot" to some analyst. It also does not mean that we should not provide programs and encouragement to value added exports.

Within the feed grain industry, the Council has been providing information and opportunities for industrial processors in the international market place. However, not every organization has the product or will to develop overseas markets. We must we wary of using government funding to pursue every value added idea.

In closing, I would like to again iterate that the philosophy that instituted the cooperation between the public and private sector has been lost in these past years and replaced with audits and adversarial relationships. The fundamentals of using non-profit organizations like the U. S. Feed Grains Council to bring together the interests of corn, sorghum and barley growers with agribusiness is a sound practice which maximizes both producer and government funding. It is a model that deserves the attention of the industrial sector in developing trade.

What is also clear is that better management and targeting of funds will yield better results, but we cannot be buried under audits when micro management by default stymies program efficiencies. But it is folly to limit a look at agriculture to just FAS: AID programs have to be considered in any review of agricultural resources.

While we strongly support the review and restructuring of FAS programs it is evident that FAS can not meet its mission of contributing to the profitability of U.S. agriculture through the development and servicing of export markets without the necessary funding. In countless markets around the world, the United States' agricultural export promotion programs are being out-gunned and out-funded by our competitors; for example, in the Former Soviet Union, the European Community is spending around $16 million dollars to promote feed grains exports, while the United States has allocated less than $2 million dollars in the same market. Given the tremendous contribution that exports of agricultural commodities make to farm incomes and the general economy, we must insure that in any restructuring of FAS or prioritizing of programs Congress provides the funding necessary for both FAS and its private sector partners to do an effective job.

NCBA
National Cooperative Business Association

STATEMENT OF TESTIMONY
by
RUSSELL C. NOTAR
PRESIDENT AND CHIEF EXECUTIVE OFFICER
NATIONAL COOPERATIVE BUSINESS ASSOCIATION
to the
HOUSE AGRICULTURE SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER
and the
HOUSE GOVERNMENT OPERATIONS SUBCOMMITTEE ON INFORMATION, JUSTICE AND AGRICULTURE

JOINT HEARING ON THE FOREIGN AGRICULTURE SERVICE
November 10, 1993

I want to thank the Chairmen and the members of these two subcommittees for this opportunity to appear here today and share with you the perspective and the experiences of the National Cooperative Business Association ... NCBA ... relative to the Foreign Agriculture Service.

The National Cooperative Business Association (NCBA) is a national, cross-industry membership and trade association representing cooperatives--over 100 million Americans and 45,000 businesses ranging in size from small consumer cooperatives to businesses included in the Fortune 500. Founded in 1916, NCBA's membership includes cooperative businesses in the fields of housing, health care, finance, insurance, child care, agricultural marketing and supply, rural utilities and consumer goods and services as well as state and national associations of cooperatives.

We were known for many years as the Cooperative League of the USA. In fact, we are still known as CLUSA in other countries around the world, where NCBA promotes and supports cooperatives through training and technical assistance programs.

We operate overseas through our International Development Division, which has an annual volume of about $8 million in programs, and through CBI, Cooperative Business International, our for-profit, trading arm.

We pursue international cooperative development by succesfully negotiating partnerships with the U.S. Agency for International Development (AID) and other donors. Cooperatives are demonstrations of democracy in action, but they are run as businesses, meeting an economic need, and result in improved incomes for their members as examples of sustainable development -- development that continues after the project is completed and donor funds have been depleted.

Representing America's Cooperative Business Community

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CBI, which was established by NCBA in 1984, is an international business company that promotes trade and investment between developing country cooperatives and U.S. cooperatives and other businesses. CBI has generated over $150 million in sales and 6,000 jobs in developing countries. CBI has had particular success in India, Indonesia, and the Philippines.

Recently, CBI established the American Cooperative Enterprise Center ... the ACE Center ... in Prague to help the cooperatives of Eastern and Central Europe develop trade and joint venture activities, and make a smooth transition to a free market economy.

In the last year, NCBA has opened an office in Tver in Russia thanks to a Section 416 monetization grant of feed wheat, the sales of which have provided us with working capital in Russia to promote market development and food distribution systems there. That office is manned by CBI. We strongly support such monetization programs because we feel they go the furthest in allowing us to create markets that will promote local development while creating new business opportunities for American interests.

America's cooperatives are proud of what we have been able to accomplish internationally, and they've dedicated considerable resources, both financial and personal, to that end. But much of what we have been able to accomplish would not have been possible without the support of the federal government, and particularly the international programs of USDA and AID.

The Foreign Agricultural Service, with its relatively new authority over the Food for Progress program and Section 416, has been helpful. We believe, however, that USDA can better assist our international trade and development efforts by focusing in on developing markets for value-added products. We need a strong FAS to help us market those products overseas.

Thus, NCBA supports Secretary Espy's proposal to merge the Office of International Cooperation and Development with FAS in the new International Trade Service Agency. We are particularly pleased to see this new agency grouped with the Farm Service Agency with both units reporting to the Under Secretary for Farm and International Trade Services, Gene Moos.

Having the existing functions of the Agricultural Stabilization and Conservation Service (ASCS), the General Sales Manager and the Commodity Credit Corporation, and the Foreign Agriculture Service all reporting to one Under Secretary makes tremendous sense. This new grouping of focused activities will facilitate coordination for overseas programs based on American commodities.

The overseas agricultural development expertise of OICD ought to combine well with the market-oriented approach of FAS. On the program side, this should beef up the capabilities of USDA to utilize the programs already on the books more effectively. It also presents an opportunity to update rules and regulations, to focus on the synthesizing of work in terms of how these programs are packaged and delivered.

This new merger should offer an opportunity for rethinking what works and what doesn't, and to put the emphasis on programs that act as a catalyst and facilitator for American cooperatives and farm organizations to develop markets, establish business

links, and become partners in economic development activity. Not because it is a government program established to "do good." But because it enables cooperatives and businesses to help one another become better partners in establishing strong markets for the future. Strong markets equate to more and better jobs in the U.S.

It is our hope that the new International Trade Service Agency will provide a stronger organization structure to achieve these ends. American cooperatives stand ready to help make USDA's international programs achieve their development goals. NCBA and its member cooperatives are thinking globally, and we welcome the support of USDA in our efforts to take a global approach. It is no longer a question of taking advantage of opportunities. It has become a matter of necessity if we are to continue to sustain our leadership position in the world.

MISSION OF FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

TUESDAY, NOVEMBER 16, 1993

House of Representatives; Subcommittee on Foreign Agriculture and Hunger; Committee on Agriculture; Joint with Subcommittee on Information, Justice, Transportation, and Agriculture; Committee on Government Operations,
Washington, DC.

The subcommittees met, pursuant to call, at 9:30 a.m., in room 2247, Rayburn House Office Building, Hon. Timothy J. Penny (chairman of the Subcommittee on Foreign Agriculture and Hunger) presiding, together with, Hon. Gary A. Condit (chairman of the Subcommittee on Information, Justice, Transportation, and Agriculture).

Present from the Subcommittee on Foreign Agriculture and Hunger: Representative Penny.

Present from the Subcommittee on Information, Justice, Transportation, and Agriculture: Representatives Condit, Stupak, Thomas of Wyoming, and Horn.

Staff present from the Committee on Agriculture: Jan Rovecamp, clerk; Jane Shey and Bruce White.

Staff present from the Subcommittee on Information, Justice, Transportation, and Agriculture: Edward L. Armstrong, professional staff member; Aurora Ogg, clerk; and Diane M. Major, minority professional staff, Committee on Government Operations.

OPENING STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. Penny. The subcommittees will come to order.

This is the second joint hearing before the Subcommittee on Foreign Agriculture and Hunger and the Subcommittee on Information, Justice, Transportation, and Agriculture. In addition to two speakers representing trade associations, we will also focus on the efforts of State departments of agriculture to gain access to overseas markets, the export potential of nonfood, nonfeed derived from agricultural commodities and the important role that export credits play in leveling the playing field between the United States and our foreign competitors.

We look forward to our witnesses this morning and I would ask that our first two witnesses come forward at this time. The Honorable Bob Walker, secretary of agriculture, State of Maryland; and Mr. Paul O'Connell, Director, Alternative Agricultural Research

and Commercialization Center, USDA. Two familiar faces, I am happy to see you both once again.

Mr. Condit will be here shortly, but he has asked that I get the hearing initiated in his absence and that will save us all some time, so I would ask that you begin Mr. Walker, and then we will hear from Paul.

STATEMENT OF ROBERT L. WALKER, SECRETARY, MARYLAND DEPARTMENT OF AGRICULTURE, AND CHAIRMAN, WORLD TRADE COMMITTEE, NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

Mr. WALKER. Good morning, Chairman Penny. Thank you for the chance to appear before you today to discuss the future of the Foreign Agricultural Service as we approach the 21st century.

I want to commend you at the outset for scheduling these hearings. All too often we spend our energies on issues of the moment, on putting out fires, and do not step back, in this case, to see the international landscape and to assess how changes in that landscape affect our Federal priorities, policies, and programs.

Let me say, too, at the outset, that I have a strong interest in the international marketing of U.S. agricultural products. Both as Maryland's secretary of agriculture and chairman of the world trade committee of the National Association of State Departments of Agriculture and as a participant on various overseas missions for the World Bank and other organizations, I have had an opportunity to travel in this hemisphere, in Europe, Asia, and the Middle East.

Everywhere I travel, Mr. Chairman, the story is the same. U.S. agriculture is the envy of the world. People around the globe want what we produce. This is our strength and, in my view, it is imperative that we play from this strength.

Since it was established 39 years ago, FAS has produced its full share of economic benefits for U.S. agriculture. This has been especially true for bulk commodities. But the world is changing and FAS must change along with it.

We are poised on an extremely exciting time. We are the leading food producer in the world and everywhere you turn, there are growing consumer markets eager for what we produce. We must position ourselves to take advantage of the tremendous economic opportunities now before us.

More and more, as each day passes, there is an increasing demand for our processed food products. In fact, exports of high value and value-added products have surpassed exports of bulk commodities, a trend that will likely continue.

Three markets that are particularly significant in my opinion for United States exports are East Asia, Mexico, and Latin America—including the Caribbean—and the vast potential of the former Soviet Union.

The East Asian nations have some of the most dynamic economies today with a growing middle class searching for more sophisticated food products. Their life-style is changing dramatically as well. These consumers are increasingly interested in ready-to-eat and easy-to-prepare food products.

A similar picture of demand is clear in Mexico and Latin America. The approval of the NAFTA tomorrow will enhance export op-

portunities in Mexico and throughout the region. United States agricultural exports to Mexico and Canada already make these two countries combined our largest agricultural export market.

A third area of major opportunity is the former Soviet Union. This is an area of which I have considerable personal experience and knowledge.

The potential for United States agricultural exports, particularly value-added products to this region, is as vast as the Russian landscape. This market is growing despite the wrenching economic transformation currently underway.

FAS must be ready to adapt to the changes in world agricultural trade patterns. As more than half of the U.S. ag exports are high value, value-added products, it is imperative that FAS develop the marketing knowledge and expertise to assist U.S. exporters to sell these products.

As we move closer to the next century, FAS must organize itself to conduct more market research that impacts on the market U.S. companies seek to penetrate. This will help companies to adapt their products to meet the needs of the foreign consumer.

We need a value-added products division that focuses its entire energy on consumer-oriented products. The FAS staff should be trained especially to deal with small- and medium-sized companies.

In this regard, instead of cutting back the market promotion program, I believe it should be expanded or at least more funds made available to the States through our regional trade association. This past year, some 18 small- and medium-size Maryland companies participated in the market promotion program, many of them getting into the export market for the first time. This kind of program is especially important for those companies with excellent export potential but lacking the resources to market the products effectively overseas.

In addition, I think FAS should work more closely with the regional trade associations of the State Departments of Agriculture and coordinate more cross-regional activities to reduce duplication and improve market access for our companies.

Moreover, FAS must employ all the latest technology at its disposal. For example, FAS needs to introduce a program to allow for wider distribution of its trade leads electronically. The trade policy staff must be expertly trained to deal with problems relating to import standards. Also, as we undertake more market research in high-value products or value-added products, we should study the distribution channels in foreign markets. FAS must help U.S. food manufacturers understand fully how the international market works.

As regards the combination of OICD with FAS, I think this will reduce administrative overhead and perhaps result in some savings. I am concerned that the development mission of OICD may become lost in the new International Trade Service Agency and perhaps inclusion of development somewhere in the title of that reorganization would be appropriate.

Let me repeat, again, that this is an extremely exciting time. The economic stakes are for us in agriculture enormous. It is in our economic and national interests that we not let these economic oppor-

tunities slip by. And it is imperative that FAS be ready to aggressively pursue these exciting market possibilities.

Thank you, Mr. Chairman, for giving me this opportunity to testify.

[The prepared statement of Mr. Walker appears at the conclusion of the hearing.]

Mr. PENNY. Thank you, Mr. Walker.

Mr. O'Connell, welcome.

STATEMENT OF PAUL F. O'CONNELL, DIRECTOR, ALTERNATIVE AGRICULTURAL RESEARCH & COMMERCIALIZATION CENTER, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY JOSEPH C. ROETHELI

Mr. O'CONNELL. Thank you. Mr. Chairman and members of the subcommittees, as Director of the AARC Center, I value the opportunity to discuss the activity underway in USDA's Alternative Ag Research and Commercialization Center. And per your instructions, I will abbreviate my verbal presentation and enter my prepared statement.

I envision considerable potential to expand the commercial use of ag materials and industrial products for both domestic and export markets. The result will be that farmers and other businesses will generate jobs and economic activity. Much of the ag and forestry material will be processed in rural areas because of the bulky nature of the ag materials to be processed, hence providing sustainable rural development based on the natural and renewable resources of rural communities.

Over the past 7 years, I have helped establish and administer programs as the sustainable ag research and education program, Regional Aquaculture Centers, the work of the Office of Ag Materials, and the AARC Center, all of which received high marks at the grassroots level. I have seen the tremendous progress that can be made by working cooperatively with private entrepreneurs.

I won't go into the background on why this area is so important and why it is changing around. I would just make a few comments along this line, though.

In the 1980's and 1990's, we discovered the disvantages of relying primarily on fossil fuels. From an environmental perspective, all kinds of pollution, from acid rain to global warming, from smog to ground water pollution, have been linked to using fossil fuels.

From a political perspective, relying on distant lands for our energy needs imposes very high national security costs.

From an economic perspective, relying on imported raw materials when local alternatives are available at competitive prices weakens local and regional economies.

In the 1990's, we may be witnessing a historic turn around in the fortunes of renewable materials. The comparative economics of carbohydrates and hydrocarbons are changing. Advances in the materials and biological sciences are reducing the cost of manufacturing renewable materials while environmental regulations are increasing the cost of hydrocarbon based products. Moreover, the growing environmental consciousness has prompted many customers to pay a green premium for these kinds of products.

In regard to the capacity situation, we have adequate—I won't go through the first paragraph here, but we have adequate capacity to satisfy food/fiber industrial needs. Unless we find other outlets, we will continue to support the excess supply situation.

The United States has invested heavily in growing markets for bulk ag commodities—the export market. The disappointing news is that despite major efforts, exports have been declining for major commodities. In the 1980's, the U.S. share of the world market for corn slipped to 66 percent from 77 percent, wheat fell to 32 percent from 44 percent, and soybean exports fell to 66 percent from 78 percent. The United States has offered price discounts in excess of 30 to 40 percent in some bulk commodity markets and has pushed hard in every forum available to liberalize ag trade in the belief that the lower-cost U.S. commodities would eventually displace higher-cost products produced in importing countries or subsidized by other exporters.

The lack of success so far in the Uruguay Round and the growing cost of the export promotion programs raise concerns about the costs and benefits of growing the export market. While few, if any, would suggest that we abandon negotiations and export promotion programs, more and more observers recognize that bulk commodity exports alone are not likely to answer our excess capacity situation.

Also, opportunities in the food area domestically are limited.

The AARC Center believes that more of our ag and forestry materials need to be converted to value-added products prior to export. Western Europe does a much better job of adding value to their ag materials prior to export than we do in the United States. About 30 percent of our ag exports are consumer-ready products compared with about 70 percent in the Western European countries.

In terms of tools to identify new markets and products, the AARC Center can be of significant help in bridging the gap between research advances and getting a commercial product into the market place. I just want to expand just very briefly on this because it is very critical.

When we do our research and it looks promising that we will be able to move it into commercial products, that is a very small part of the cost. It requires about 10 times that research cost to develop that particular technology and it takes 10 times that to get the product on the market. So it is absolutely critical that we begin looking at the in-between phase between the research bench and getting the product on the market.

The AARC Center is industry led and market driven. The majority of the AARC board of directors, reviewers, and applicants are from the private sector. We have direct links with these people—some already have products with export potential that are made from ag commodities and others are near commercialization—but few have experiences in accessing and penetrating export markets.

I just want to indicate a few examples that I have here. The Phenix Composites' Newstone, Mr. Chairman, which I know you are familiar with from Minnesota which is a product that I have right here, and this is made out of soybean meal and wastepaper and this is a project that we are supporting. They are in the process now of building a production facility right around St. Peter,

Minnesota. They hope to have this ready to go just shortly after the first of the year. I don't know if Mr. Thomas has seen it.

Mr. PENNY. I don't know if Mr. Thomas has seen it. I have several samples in my office, so any legislator that has stopped by has seen it, but I don't think Mr. Thomas has.

Mr. THOMAS of Wyoming. If it is not made in Wyoming, I haven't.

Mr. PENNY. That is soybeans and newspapers.

Mr. O'CONNELL. The next one I want to show is a project we worked with, an individual in Washington: International Lubricants. This lubricating oil is made from vegetable oil, canola, rapeseed, or crambe. Most people indicate that oil and water don't mix. However, when it has an emulsifier in it, it will mix, and let me put this in this little glass of water and you can see this. This will break up like this here and will stay like this.

You may wonder why is this so important? Well, when you are talking about oil for a marine environment for chain saws for a whole lot of other places where we don't want oil mucking up the water, if you have something that breaks up like that and then you can come by with fungi and other little critters that take care of these things.

This is for cutting oil, this particular one right here, but the principle can be adopted elsewhere and it is beginning to come on the market. In Europe, now, they have to use vegetable oil in their chain saws. Probably will be coming here.

Gridcore, this is made out of kenaf. This is for partition projects that we got out in California. This is a corrugated material. This is made out of grass straw. They have a tremendous problem out in Oregon with the grass seed straw. They used to be able to burn it. They can't any longer and because of pollution concerns and other concerns, so we are working with the State of Oregon. And Weyerhaeuser has developed a material made out of this. If somebody wants to take this around, you are welcome to.

I wish I had thought of this one here. This is windshield washer made from corn alcohol. I know we have a need for that in Minnesota—windshield washer is currently made out of methanol that is imported. This will be out in the winter in K–Mart and other Target stores up in Minnesota. That is a small operation in St. Louis.

This is a very interesting one. The underbelly of sheep is wool that goes to waste and they put in a project, and we are joining with them in producing an oil absorption pad made out of this and it has much more absorption than others now. This material now goes to waste. Now this will be used as an absorbent. I wasn't aware of this market until recently.

OSHA requires that everyone who handles oil must find a way to absorb it so the oil doesn't go into the waste stream. These are just some of the projects that we are working on that have both domestic and export potential.

I have some fact sheets on every one of these and they are over here on the table. I would be glad to put those in the record for all 23 projects indicating the contribution, we require 50 percent contribution by the private sector partner, and if the project is suc-

cessful, they have to pay it back. After some time, we should be able to be self-sufficient.

The above represent a few of the 577 applications of the AARC Center has received in just over a year. The ideas are intriguing. The entrepreneurship exists to commercialize a host of products. The missing ingredient is adequate support to help share the risk with private sector to undertake such ventures. We have been able to fund less than 10 percent of the applications. A unique aspect of the AARC program is that private sector partners are required to pay back the Government contribution when sales reach a prespecified level.

The program linkages, I won't go into that in any detail, except to say it is very important that we link this kind of activity with trade issues, environmental issues, rural development issues, commodity issues, and research initiatives already underway in USDA. We are underway on doing this.

In conclusion, while some ideas for new uses have been around since the 1930's, there has been no consistent effort to make them commercially viable. When surpluses were high, a big push occurred. When supply was more in line with demand, interest waned. Now, consistent commitment is more evident.

For example, in 1991, nontraditional uses—such as sweeteners, ethyl alcohol and industrial starch from corn equaled corn exports. By the year 2000, industrial uses will consume an estimated 2.4 billion bushels of corn—a 1-billion-bushel increase.

More than 30,000 acres of industrial rapeseed and crambe are grown annually for lubricants, plastics, and antifoam agents. In 10 years, expect to see 300,000 acres of those crops. Biodiesel, degradable starch polymers, adhesives, inks, paints, and paper products from ag materials are other potential growth areas.

New technologies and scientific tools such as genetic engineering, continuous-flow fermentation and chemical catalytic processes are opening up entirely new markets and uses for raw agricultural products. As new markets develop, farmers and rural America will become less dependent on Federal farm program payments and additional demand for renewable based products will more fully utilize our agricultural capacity and infrastructure.

That concludes my statement.

[The prepared statement of Mr. O'Connell appears at the conclusion of the hearing.]

Mr. PENNY. Thank you, Paul. It has been good working with you and with Bob over these past several years. It has taken steps in the direction of new uses for American crops.

Bob, you mentioned the need to improve the relationship between FAS and State Departments of Agriculture. In what way do you feel we could achieve that objective?

Mr. WALKER. States principally work through the regional trade associations, of which there are four in the country. These associations in turn do most of the legwork working with FAS in programs such as MPP and so on and trade shows and what have you.

I think to the extent that the FAS staff could periodically rotate for a month at a time with State Departments of Agriculture working with businesses in the States that are interested in export opportunities that are exporting to give them some insights into the

process, particularly renewed export businesses that would be very helpful.

Seminars, I know when we have seminars, and we did have one not long ago and had an FAS staff person there with someone from the regional trade association. We had a large turnout, more than 50 companies, and again it was very insightful for them and very helpful.

Mr. PENNY. The market promotion program as modified as part of the reconciliation package this summer. Do you have any observations you would like to share on the recommendations taking into account your testimony that you would like to see more than less money devoted to MPP? How do you feel about the redirection of that program based on those reforms?

Mr. WALKER. I think I could support the—realizing again the budget problems we have been facing in Washington and the need to tailor the program and in light of the criticisms of the program in the past, I think that reforms and changes were necessary to preserve the program.

I do feel, however, that more money could hopefully be made available to the States through the regional trade associations because the States are closer to working with the businesses that are exporting or that are interested in exporting and can leverage these funds with our own State resources and staff to do a better job in helping companies export.

Mr. PENNY. The changes that were made still allow MPP funds to be allocated to these regional trade groups. Are you simply indicating that my priority be placed——

Mr. WALKER. Yes, sir; Mr. Chairman. That is what I am doing. I think, again, if you look at the track record of the regionals working with the States, that you will see there is an enormous return on the investment as far as exports and increased export sales from these regional associations. And we do have information I could provide to your office.

Mr. PENNY. Paul, you mentioned in your testimony the potential for job creation in rural areas as we move in the direction of value-added commodities. Is that one of the priority goals of our focus on smaller firms that are located in rural settings?

Mr. O'CONNELL. Of the 23 projects we have, 18 of them would be considered very small businesses and so that was the focus that we had. Now, there are some technologies that require for you to work with middle-sized or larger companies, but our focus is on the smaller businesses.

And like I say, 18 of the ones that we funded are in that category. The first thing that we look for, the board looks for when it is funding a project, is that the particular technology and that company and the business that it has and the business plan and so forth likely would be profitable. In other words, that is the first thing that we look at.

We have people on the board that are venture capitalists and business people. The technology may be very real, and may look very promising, but unless the individual or the company that is involved has a good business plan and knows where it is going, knows where the markets are, the product that they are talking

about is likely to be profitable, in a few years down the road, they are going to be out of business.

So we put out a request for proposal and then we ask them to develop their business plan. But before we fund the project, somebody from the board and staff actually visits on-site to show that this is legitimate. Job creation is very important, but before you can have job creation, you have to have a profitable business.

Mr. PENNY. You also indicated that the design of the program and the fact that it includes payback expectation?

Mr. O'CONNELL. Right.

Mr. PENNY. Could you describe in more detail how that works and whether it is universally true that the money forwarded to the company is paid back based on the company's performance or whether there are exceptions to that rule.

Mr. O'CONNELL. As you are aware, we have just been in business 18 months. I have been too careful.

Mr. PENNY. I understand that we don't have like experience to gauge, but I do think it is important that we clarify what the policy is.

Mr. O'CONNELL. We went through a long, deliberate policy in looking at this, the board did, and also the lawyers in the Department. We have two basic approaches.

Our No. 1 concern is to make sure whatever company we have gone into partnership with, that they succeed. So the one approach that we have is—we have agreed on this mutually that when they have attained a certain level of sales, let's say $1 or $2 million, then over the next 2 or 3 years, they require a certain percent of their sales, they pay back to the revolving fund.

And it is not just to pay back the funds we gave them, it includes at least 2 percent above a 10-year Federal Treasury note, so that is a minimum. If it is a higher risk than that, we may even have it higher than that. When it is paid back, it is more than it cost the Government for the money. That is one approach.

The other is where we take an equity position in the company. We actually take an equity position up front with the company and then if it is successful down the road, we would expect to sell that stock back to the company.

Mr. PENNY. To recover the investment?

Mr. O'CONNELL. To recover the costs plus, hopefully, if they are successful and we could get up to three, four, or five times if they are really successful. So we have *x* number of stock when we go into it. Many of the small companies have chosen that option, because then they don't have to show that on the books.

One of the experiences—I didn't anticipate this—when we first started, we went through the review process, we selected projects and then we require that they have 50 percent of the funds at least.

What happened was that with those—they didn't quite have the commitment from the other funds at that point in time. They said you can send us a commitment letter and we did that. And what we said was that by the time we set up our agreement, you must have that, but we are committing to you these funds and that provided the option for these small companies to go out and get other investors to also come to the table.

The AARC board, for example, the Newstone project out of Mankato, Minnesota, didn't have the $1.5 million they said they would put into the project. They said they will commit to it but they didn't have it. So once they found that they had gone through the process, then we sent them a commitment letter. But when we got to the table and negotiated it, they had to have that commitment which they did.

So just the idea of knowing they went through a process that said this was valid, they could then go out and get other money and this was true in other projects too. I am just using that as an example.

Mr. PENNY. I have some other questions of both witnesses, but I will defer to the others present here.

Mr. Thomas, do you have questions at this point?

Mr. THOMAS of Wyoming. Thank you, Mr. Chairman. Just a couple.

I was not able to attend the first meeting, so I am a little behind the curve, I suppose. Let me just comment a little bit. First of all, clearly everyone thinks marketing of products in the foreign market developing products is a good idea. That is not really the issue. The issue is how do you best do it, I suppose.

The issue, it seems to me, is what is the role of the private sector. And that program has been basically in effect for some time and those definitions sort of need to be reevaluated from time to time, I suppose.

We have co-ops that do some of these things for farmers in the private sector. We have exporting companies that do this in the private sector. In my experience, my experience has been some time back, these are the people who really have the expertise in selling things and the role of the Government, I suppose, is a promotional, informational one. But I think perhaps it needs to be defined from time to time.

In general, Mr. Walker, what is the legitimate role of Government in making a commercial sale?

Mr. WALKER. Mr. Thomas, I think that first and foremost is market information and intelligence. The role of the Government should be to provide market information, intelligence to companies, to businesses, identify where market opportunities are and communicate that information in a timely way to companies through whatever—whether it is States or regional associations or through commodity groups and so on. I think that is extremely important.

I think it is important to have highly trained staff in FAS here and abroad that can counsel businesses and understand how to access markets and where the markets are.

Mr. THOMAS of Wyoming. May I interrupt you just a second. Where do you know in the Government where there are people who counsel businesses, generally successfully.

Mr. WALKER. Excuse me, I didn't understand that.

Mr. THOMAS of Wyoming. Where do you know of an experience where people in Government counsel businesses very successfully?

Mr. WALKER. We do it day in and day out in the State of Maryland.

Mr. THOMAS of Wyoming. You counsel the business how to run their business.

Mr. WALKER. No, we counsel them in terms of opportunities, sales opportunities abroad, where they manufacture products that have a need and in a certain marketplace. And it can be done, I mean, even in Maryland. We just recently sold 15 container loads of apples. We have Maryland wine in Japan and England.

Mr. THOMAS of Wyoming. You sold that, the apple growers didn't sell it.

Mr. WALKER. We took these leads to Maryland companies. We told them what the opportunities were and what they might have to do to get that market and we introduced them to the buyers. We obviously don't buy and sell, and we can't commit to anything other than using our good offices to bring information to sellers.

Mr. THOMAS of Wyoming. I am not being critical. I think this is a question. Take your apple thing, for example. You suggested that more of the money go to regional or State groups. Is that a little parochial? If there are apples for sale, why should they be Maryland apples as opposed to somebody else's apples.

Mr. WALKER. Mr. Thomas, we did not use MPP funds for that.

Mr. THOMAS of Wyoming. But you do that. That is still a question. It is little parochial. You are interested mostly, aren't you, in Maryland products.

Mr. WALKER. Obviously on the first order, I am interested in exporting more products—processed food products from Maryland. But beyond that, I do have a broader interest and I am not parochial.

Mr. THOMAS of Wyoming. But that comes from Maryland and let's not——

Mr. WALKER. Right. But, again, each State conducts its international marketing activities differently. Each State has different resources. We have two staff including the chief of markets who spend a lot of time on trade missions, participating in food shows, coming to Washington and being familiar with every single program that is available that can help and assist companies export their products. It is very labor intensive.

Mr. THOMAS of Wyoming. I don't want to take too much time. The question is: Should everyone pay to do this? I am not sure. Why don't you raise your own resources in Maryland to promote Maryland resources.

Mr. WALKER. We do have resources in the State.

Mr. THOMAS of Wyoming. But you want more Federal resources as well.

Mr. WALKER. The Governor of the State, the other departments in the State devote enormous resources to promote Maryland.

Mr. THOMAS of Wyoming. I thought you wanted more Federal resources.

Mr. WALKER. What I am asking for is the resources that are available, for example, in the MPP, that more of those be available to the State and your State and other States to help those businesses in your communities export their products abroad.

Mr. THOMAS of Wyoming. But we do need to define it. You can always help. We ought to spend $12 billion doing it. That would be good, wouldn't it?

Mr. WALKER. Again, I guess the budget constraints——

Mr. THOMAS of Wyoming. Sure they are. The point is, what is the role? And I don't know the answer. And I don't mean to be argumentative, but I think you have to really—objectively look at the role of different folks as to what they are doing and how it affects others, and that is why I am glad you are here. And it seems to me that is the issue. The high value ones, Mr. O'Connell.

I hear a lot of complaints—not a lot of complaints, criticism of promotion of products that are processed products. McDonald's, large companies whose products—the theory we are promoting, agricultural products. But in between there is a manufacturer, and we say, geez, they have more money then we do, why are we subsidizing?

Have you heard that?

Mr. O'CONNELL. Yes.

Mr. THOMAS of Wyoming. How do you respond.

Mr. O'CONNELL. First of all, most of our products are with small companies as I indicated earlier. One of the problems we have in agriculture that we have done a lot of research on, new uses for ag and forestry materials. Unfortunately, not a whole lot of those have gone to the development stage, to the market stage and gotten at all actually on the marketplace.

Quite frankly, there is a market failure. It used to be very simple when you had a simple product, it goes fairly quickly to the market. But the cost of bringing something to the market now is very expensive. You have the testing cost, somebody buys a property, they have all kinds of specifications. You have to prove that the technology works, all those kinds of things.

It takes 5 to 10 years and generally companies look at these, especially small companies, and they look at 1- or 2-year framework. All we try to do in our program is to help bridge the gap between research ideas and getting a product on the market.

Like I say, almost 90 percent, 85 percent of ours are with small companies, but there are a few technologies. You have got to work with bigger companies that get the products on the market. If you don't do it, they won't do it.

Mr. THOMAS of Wyoming. I understand.

Mr. O'CONNELL. In our case, we are just trying to get start-up costs and if it is successful, we plan to get the money back.

Mr. THOMAS of Wyoming. That, of course, is the classic issue between basic research and commercial use.

Mr. O'CONNELL. That is right.

Mr. THOMAS of Wyoming. That is why around Duke University and other places, you have a row of people who play that role. They go from basic research to the entrepreneurial thing. And the entrepreneurial thing isn't your job, is it?

Mr. O'CONNELL. No. But we enter our project with private companies. They have to put up at least 50 percent of the money.

Mr. THOMAS of Wyoming. I am still seeking to define our roles here and what we do.

Mr. O'CONNELL. I know. But we are just providing start-up money is all. When we get applications, we require that it be private companies that are putting money up front.

Mr. THOMAS of Wyoming. Thank you.

Mr. PENNY. Mr. Stupak.

Mr. STUPAK. Thank you. I think your program is great. For example, you just did one up in my district where you put up $300,000, but the company had to put in $2 million. And this was some wastewood products that we are doing up in Michigan—up in Lake Linden—so that is a real good program.

I had supported it, but my question is, those who are not successful, even though they are putting money and things like this, I don't want to say they are not successful. I don't want to say—applications who you cannot fund because of your limited resource. I think your testimony said you are able to do about 10 percent.

Mr. O'CONNELL. Right.

Mr. STUPAK. Do you have any methods or can you direct them to other agencies within your Department or SBA to help them get funding?

Mr. O'CONNELL. We do and we just recently got a—there is a Federal document that is out that covers everywhere you can get money, and we are sending it back to them so that they know what is available. SBA-Commerce Department has the advanced technologies program and so forth, but in this area of bridging the gap between research results and commercialization, there is just a hand full, really.

SBA is really a research program for primarily smaller companies. Advanced technology programs in the Commerce Department is primarily a program for industry in the urban community. AARC looks at it from an agricultural standpoint, There are very few other sources.

Most States now have economic development programs—and they are different sources. I believe in a State like Michigan, Iowa, or Minnesota is different in that the program has been somewhat unique.

But the economic development programs in most States, each of those are agricultural States, are not paying much attention to agricultural opportunities. They don't look at agriculture as a good investment so far as moving new products in the marketplace. That is what I have observed in this area over 5, 6, 7 years.

If you would have asked me if before I got involved in this area that agriculture was a good investment, I would have said no. But as you get involved in it and you look at the opportunities and you look at the new technologies and the chemurgy movement and all that sort of thing, there are opportunities out there now.

You go to the bank with that idea from Michigan. From your State, they would have said, hell, no. You need 10 years of record. They won't even talk to you. All we are trying to do is get that started with some seed money that when they need to expand, they can go to the bank. That is all we are doing.

All we are trying to do is get it started and I think—I would like to see us help the other people out more than we have. But in all honesty, there aren't too many sources.

Mr. STUPAK. The document you are putting together with other sources, with other possible programs, would you make sure we get a copy of that to our office?

Mr. O'CONNELL. I am.

Mr. STUPAK. Thank you. Thank you for the help in northern Michigan.

Mr. PENNY. Mr. Condit.

Mr. CONDIT. I apologize for being late. But I would like, if there is no objection, to add a statement into the record.

[The prepared statement of Mr. Condit follows:]

ONE HUNDRED THIRD CONGRESS

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OPENING STATEMENT
CHAIRMAN GARY A. CONDIT

MISSION OF THE FOREIGN AGRICULTURE SERVICE
PART II
November 16, 1993

Good morning. We called today's hearing as part of a continuation of this Subcommittee's examination of U.S. agricultural exports and Mr. Penny's desire to reform FAS programs to make them work better. This is the second hearing of this series.

There is some good news on the export front, 1992 agricultural exports were up over 12 percent to a total value of more than 42 billion dollars. Agricultural exports are estimated to create more than one million jobs in the U.S.

The USDA estimates that every dollar received from agriculture exports generates another dollar-and-one-half in business activity for the rest of the economy. Despite this good news, I think this is a time for great caution. We are in the midst of a great debate over the NAFTA, and agriculture has been brought back to the table in the GATT negotiations.

Because of my concerns I intend to keep this Subcommittee focused on what we can do to keep the U.S. the world leader in agricultural exports. I know my colleagues on both panels are like-minded and I greatly look forward to today's testimony.

Secretary Espy's reorganization plan envisions great changes for FAS. In fact, FAS would be moved to a new Under Secretary's department and renamed under Mr. Espy's proposal. While I am very supportive of the cost savings proposals and management improvements which could be the result of this reorganization--I have some great concerns. Hopefully, we will have a thoughtful discussion of the FAS reorganization today which will lead to a bipartisan and cooperative consensus on this issue.

I am also very interested in what is being done to implement the Department's long term trade strategy. This Subcommittee unfortunately had to fight with the USDA to get them to produce one--today will provide us with an excellent opportunity to check its progress.

I also hope to hear positive things about efforts to increase high value exports and new agricultural technologies today. I cannot think of a better way to stimulate job growth than to make sure that we do everything possible to add value to our raw products before they are exported. Study after study has indicated the potential of this to rural America. High value exports help our manufacturing, packaging and shipping industries as well.

I would once again like to commend Mr. Penny and his staff for their efforts in planning this joint hearing. This is an example of the type of cooperation that should take place between oversight and authorizing committees and I hope we can continue more of these efforts next year.

Mr. CONDIT. And because you have already responded to questions, I may submit some questions in writing to Mr. Walker and Mr. O'Connell and ask them to respond to my office. And then we can move this meeting along because I may have to leave again.

Thank you.

Mr. PENNY. Thank you. As we look at the potential for nonfood, nonfeed uses, you gave several examples of success stories here in the United States, listed a number of companies that AARC is already involved with. You also gave an example or two of products that have been developed overseas.

In comparison to Europeans or other nations, how does the United States stack up on this score?

Mr. O'CONNELL. I have had the opportunity over the last, oh, 5, 6, 7 years to visit Europe, both individual countries and primarily the European Community.

And starting about 5, 6, or 7 years ago, they started getting into finding new uses for ag and forestry materials in an industrial area. And they are up to the point now where they are spending five to seven times more money in this or bridging the gap between research itself and commercialization.

These remain primarily in demonstration projects. I just want to give one as an example. They have a biodiesel demonstration project going on right now and over a 3- to 4-year period they are going to be investing $30 to $40 million in that. That is one demonstration project I am talking about now.

And just like in our case, they require matching funds by the private sector. But they are doing this with different countries and with companies and they are very serious about it. And one thing we are trying to organize—and I think it would be very helpful to try to organize—is a transatlantic conference next year. I think to the extent that we can find more use, new uses for ag materials and great diversity of markets and they can do it, it takes the pressure off the whole trade situation and we are planning on having that transatlantic conference next year.

The other player in that area, of course, is Japan and they are more interested in the finer, natural products, anything with high value-added sort of thing. The pharmaceuticals, this kind of an area. They are also moving into the polymers made out of renewable materials. They also are spending more money than we are. I am not as familiar with Japan as I am with Europe.

Mr. PENNY. When we analyze the export market for value-added or processed ag commodities, is that export market primarily food items at present?

Mr. O'CONNELL. It is certainly all food items. The whole, as you well know, Congressman, the reason that was set up as nonfood, nonfeed is that we saw that as an opportunity to have met new demands for the country as a whole. But the current situation, so far as exports are concerned, are almost totally food items, food and fiber items.

Mr. PENNY. You indicated quite clearly in your testimony the trend line on bulk commodities, the United States has seen its share of the world trade in bulk commodities decline during the 1980's. And there is the relatively static growth in bulk commodity demand worldwide.

Mr. O'CONNELL. It is going down, really. As I indicated in my testimony that was verified by the people over in ERS, it is just simply declining.

Mr. PENNY. The growth area has clearly been in value-added, the United States has a relatively small share of the world market in that area. Europeans, a sizable share.

Mr. O'CONNELL. Yes.

Mr. PENNY. So clearly that is a potential growth area for exports. You have made the case this morning no one has even scratched the surface?

Mr. O'CONNELL. Not really. I just mentioned about 10 of the products here we are working on, and in discussions with some of the clients, for example, we have this Lubrisol. This is this product right here. It now is being sold I believe, Joe, where is it? Japan and Thailand and also in Europe.

Mr. ROETHELI. They are trying to get in Europe, yes.

Mr. O'CONNELL. This is made of vegetable oil. Crambe, rapeseed. This is a transmission fluid supplement. And it just has a whole lot of potential. The Newstone project, I know the people in Mankato, Minnesota, they have talked to some people overseas. But it is just scratched the surface. There is opportunity for some of these new products, but it really hasn't even started yet.

Mr. PENNY. Your last analysis in terms of market potential dealt with the domestic demand and even here, a relatively level demand graph for food items, processed food items, and so even as we look domestically, the only potential for growth in ag products making it on to the store shelf is the nonfood, nonfeed items.

Mr. O'CONNELL. Nonfood, nonfeed because our production capacity is growing at about 2 percent and our demand is growing about 1 percent. That is what has been appearing over the last number of years.

Mr. PENNY. Have you coordinated agriculture with FAS or the newly titled International Trade Service?

Mr. O'CONNELL. I have with some of the folks over in ERS, but not with the Foreign Agricultural Service people to the extent that we need to.

Mr. PENNY. Certainly I would think that is a linkage that would be important.

Mr. O'CONNELL. And we need to make it.

Mr. PENNY. But virtually every item that you have been involved with could look to a foreign market as well as domestic outlets.

Mr. O'CONNELL. Yes.

Mr. PENNY. I wanted to ask Mr. Walker, specific to Maryland, what are the products that you are presently most excited about and focus on those that you believe have the greatest export potential?

Mr. WALKER. Again, I think any of the processed food products that are made——

Mr. PENNY. You mentioned poultry products.

Mr. WALKER. Absolutely. We are selling 10 to 12 container loads a month to Japan. We are going into Indonesia, Singapore, into the Far East with poultry products, any of the processed food items that we make in Maryland, snack foods to canned crabmeat and clams and everything else.

Mr. PENNY. I believe it was your testimony where you talked about the Southeast Asians becoming—I don't know if they are connoisseurs, maybe more colloquially, snack food junkies. Is this really a trend that is heavily underway?

Mr. WALKER. Apparently so. I think snack foods and ready-to-eat foods, easy-to-prepare foods based on the information that is coming from that region, from ag attachés and others from trade shows, apparently there is a growing demand for such products there. If you look at the East Asia market, in these growing communities, you are talking about potentially 1 billion consumers.

Mr. PENNY. You also spoke of the tremendous demand within the former Soviet Republics for off-the-shelf sorts of food items and a willingness to pay a premium for those sorts of products.

Mr. WALKER. Yes, sir; Mr. Chairman.

Mr. PENNY. What do we do to break the European monopoly in that regard?

Mr. WALKER. Again, I think we have to have a greater presence there on the trade side with folks from FAS who are trying to identify the opportunities and channels through which these products move. Who are the buyers and who are the markets? Where are the markets?

If you look at the recent FAS report from the Soviet Union—the former Soviet Union, in Moscow, there are increasing American food products on the shelves from—I have a list of them here—from Tysons frozen dinners to chicken pot pies and ice cream and Planter's peanut butter and so on. But by and large, shelf space is dominated by European products from the European Community.

Mr. PENNY. Last, any examples of nonfood, nonfeed products that are peculiar to the farm community in Maryland, in other words?

Mr. WALKER. Again, I appreciate very much, Mr. O'Connell's comments this morning. I am not familiar with any such products from Maryland being exported abroad.

Mr. O'CONNELL. I don't think so.

Mr. WALKER. I think this linkage between the research he is doing and the products he is developing—and FAS is extremely important—it can help enhance our overseas posture in terms of those markets.

Mr. PENNY. I have concluded with my questions of this panel. I will ask Mr. Horn in he has any questions he would like to ask.

Mr. HORN. I will pass, Mr. Chairman.

Mr. PENNY. With that, we thank you for your testimony and, in addition to Mr. Condit, there may be other members who want to submit written questions. We would appreciate those responses.

Thank you, Bob. Thank you, Paul.

Mr. WALKER. Thank you, Mr. Chairman.

Mr. PENNY. Our next panel includes Mr. Philip Seng, president/CEO, U.S. Meat Export Federation; Paul Webster, president/CEO of Webster Industries, on behalf of the American Forest and Paper Association; and Ms. Sharon Colon, vice president, area manager for United States and Canada CoBank.

You are free to summarize your testimony as you wish. Your entire written testimony will be included in the record.

Please proceed.

STATEMENT OF PHILIP M. SENG, PRESIDENT AND CHIEF EXECUTIVE OFFICER, U.S. MEAT EXPORT FEDERATION

Mr. SENG. Good morning. The U.S. Meat Export Federation would first like to express its appreciation to the subcommittees for the opportunity to express our views on the future partnership of U.S. agriculture and the Foreign Agricultural Service in expanding future U.S. agricultural exports.

The U.S. red meat industry and the FAS have enjoyed a productive and fruitful partnership in expanding foreign markets for red meat over the past decades. The performance of red meat exports in recent years bears this out. Total red meat exports worth $740 million in 1986 have exhibited explosive growth and will exceed $3 billion this year alone. USMEF's long-range plan predicts that red meat exports can reach $8 billion—1993 dollars—by 2001 if the U.S. can maintain its momentum. Simply stated, red meats have been one of the fastest growing agricultural export categories over the past decade. Prospects for future growth are bright as trade barriers decline, world population increases, and economic prosperity—based on free market policies—expands to most of the world's nations.

I would like to offer a vision of what the global marketplace may resemble as the millennium turns. First of all, we think trade issues would be subsumed by competitive issues. NAFTA, GATT, and a host of bilateral agreements have and will have a cumulative impact of lowering trade barriers and increasing access to foreign markets. Japan is perhaps the best example where the priority of export-led economic growth policies have slowly overridden the protectionist sentiment of an inefficient agricultural sector and result in the lowering of trade barriers.

In just the red meat arena alone, similar marketing opening efforts have been undertaken in partnership between the United States meat industry and the United States Government in Korea, the European Community and several other markets. GATT and NAFTA promise to continue the process of lowering trade barriers.

Unfortunately, the U.S. has a reputation for its strength when it comes to opening markets but weakness in marketing follow-up. The benefit of trade agreements should be measured by the black and white of the bottom line: Sales.

Sadly, our competitors have the edge on us when it comes to aggressive marketing programs. All our major competitors outspend the United States in terms of the ratio of market development spending to the value of their exports. Take the European Community, for example. Even after GATT is fully implemented by the year 2000, Europe can still directly subsidize meat exports to the tune of almost $1.5 billion per year. In the United States, the red meat industry can expect less than $8 million in Government resources in 1994 for export market development.

Despite what some may view as an aggressive international marketing program, the U.S. red meat industry and the U.S. Government still collectively spend less than 1 percent of its total international sales on foreign market promotion. This percentage is declining as the export commitment by the Government continues to recede.

Increasing U.S. competitiveness will require long-term, strategic planning and a more effective Government/industry partnership. Competing in the international marketplace will be the primary challenge of the remainder of this decade and beyond. The importance of exports to the U.S. red meat industry cannot be overstated.

Faced with the year-on-year declines in consumption of U.S. beef, pork, and lamb, producers are viewing the foreign markets as the primary growth sector of total red meat demand. The implication of this export growth on our economy are enormous. For example, the U.S. pork industry employs about 765,000 people. This is more than the total payroll of Northwest Airlines, Ford, and IBM combined.

Regrettably, the bond between the U.S. Government and industry and exporters seems to be weakening. Ever fearful of GAO criticism, FAS seems to be paralyzed into action at just the time a more aggressive and flexible international approach is most warranted.

Meeting the competitive challenge of the future will require fundamental reorientation of current FAS policies, programs, and organization. Our observations about current FAS shortcomings and recommendations for action are as follows.

First of all, we think long-range planning is lacking. To our knowledge, the U.S. livestock industry, representing over one-half of total farm receipts in U.S. agriculture, was not even consulted once on the long-term agricultural trade strategy—called LATS. This is also the case with FAS reorganization.

In the meantime, agricultural industries independently develop their own long-range plans. The U.S. Meat Export Federation program has quantified and qualified opportunities in the export markets through the year 2001. However, because the Government commitment to agricultural exports is uncertain, the industry long-range plans of which we are aware strikingly omit any mention of a Government/industry partnership or joint action agenda in the export marketplace.

So our recommendation would be: One, allow industries to develop the strategy and tactics for their respective industries while USDA/FAS establishes strategic direction across all commodity groups. In this regard, establish a joint long-range planning process between industry and the Government. Set quantifiable export targets and periodically evaluate progress to date and/or reasons for failure to meet these targets. Review long-range plans annually to ensure flexibility and sensitivity to changing market conditions.

Two, FAS focuses on process rather than results. USMEF's budget submission for the fiscal year 1993 MPP program was in excess of 650 pages. USMEF's overseas marketing directors are forced every year to spend months away from their market development work supplying minute details and excessive paperwork for MPP. Meanwhile, our competition is out pounding the foreign pavement in search of new customers and sales.

The annual process of preparing and reviewing MPP plans lasts an astounding 6 months. Plans are rarely approved by the beginning of the marketing year, creating marketing paralysis overseas. This may be the worst year since USDA has yet to announce even the application date for next year's program.

In contrast to developing the plan, there seems to be little emphasis within the USDA on measuring results. FAS sill has not developed uniform criteria for evaluation of programs and analyzing program effectiveness. However, priorities on process rather than results define the current orientation of FAS marketing programs.

Our recommendation would be to develop a simple, but effective, application process for promotion resources. This could ideally be a computer-generated marketing grid which outlines the basic targets in each market like we use at USMEF. Establish strict internal deadlines for application review and approval. In addition, allow the submission of multiyear plans, preferably 3 to 5 years.

Annual reviews for budgeting purposes would consist of fine-tuning multiyear plans according to shifting marketing conditions.

Another point: FAS resource allocation and structure shows no overall strategic focus. Although FAS maintains an enviable global network of agricultural field offices, the location of these offices exhibits questionable strategic positioning.

FAS offices should constitute the frontline of the U.S. agricultural sector overseas. Specifically, whereas individual private exporting companies have relatively short-term horizons. Industry organizations—i.e., cooperators—have longer-term horizons. However, the interests of private industries are still constrained to a relatively short—3 to 4 years—timespan.

This is where USDA/FAS has an advantage. FAS resources should focus its activities in the strategic markets of the future, especially those where U.S. agricultural industries have a low level of exposure and representation and long-term commercial potential.

Organizational reform appears to be worsening. The red meat industry sees no benefits or further diluting the work of FAS by combining it with OICD into the International Trade Service. In fact, the ostensible missions of the two organizations appear to be at cross purposes, with FAS promoting the exports of agricultural products and OICD promoting the export of agricultural expertise. Overseas, our customers will wonder why the word “agriculture” was dropped from the agency’s name.

Our recommendation is that FAS, in concert with private industry, should analyze its current foreign office structure to determine how to maximize cooperative synergies and complementarity.

Within Washington, FAS could better integrate and coordinate its trade policy, marketing, and analysis functions. Resources and personnel emphasis should be placed in those areas where FAS holds an advantage over private industry, primarily trade policy and analysis. Commodity and trade policy analysts should be placed under one work cone. International marketing analysis should be coordinated or combined with that conducted by the Economic Research Service—ERS—and FAS should design a structure whereby coordination with other USDA agencies such as APHIS, FSIS, and FGIS is enhanced.

The last point is a lack of overall vision creates misguided work priorities. FAS has not clearly defined its mission and responsibilities to its constituents and to its employees. For example, FAS’s international orientation still seems directed toward crop reporting. Marketing development emphasis is still placed on disposing of surplus bulk commodities on world markets with concessional pro-

grams. Personnel hiring requirements emphasize analytical classroom experience rather than marketing skills and private sector training or experience. The design and administration of marketing programs is in the hands of compliance personnel.

The bulk of the most useful reporting from FAS/field offices remains internal and classified and thus off limits to those who could most effectively benefit from it. The best customers for FAS crop reports and circulars are our competition today.

Our recommendation would be, analyze the respective strengths of industry and Government organizations and create a partnership based on these strengths. For example, make sure analysis supports efforts in trade policy and marketing. Ideally, industry groups and cooperators should take the lead in marketing while FAS/USDA concentrates on analysis and improving market access.

To ensure overall coordination within the partnership, USDA and FAS should consider stationing personnel in the home or overseas offices of industry cooperators. In this way, USDA can develop a sense of accountability to its constituency while simultaneously training its personnel in the technical and marketing nuances of each commodity.

The function of overseas FAS staff should complement the marketing programs of the industries.

In terms of program focus, there is no need to reiterate the growing importance of becoming more aggressive in promoting value-added products. With GATT limiting the ability to subsidize bulk commodities, greater emphasis will have to be placed on increasing the U.S. market share in the value-added trade. Currently, the funding of programs which dispose of surplus commodities exceeds that of programs which build new markets for new products by tenfold to twentyfold. And in foreign markets, it shows.

Currently, the United States is a residual player in the growing value-added export market. Despite the fact that it is a world leader in terms of efficient production of these foods, only 10 percent of what we export is value-added.

Lastly, success in the international marketplace will require a service mentality to our foreign customer. I think the potential exists for retooling the current relationship between the Government and industry. Most importantly, the partners must view each another as team players, not adversaries.

The object of both parties' focus should be on the existing or potential foreign customers of our products. In the highly competitive environment of the international marketplace, industry and Government cooperation is vital to remaining competitive and capturing increasing share in the growing market.

Given the fact that these relationships are the norm for our competition, and that the United States is burdened with a promotion resource handicap, the synergy of the industry/Government relationship may be the penultimate factor defining future U.S. competitiveness in future agricultural trade.

Thank you very much for soliciting our views on this important topic.

[The prepared statement of Mr. Seng appears at the conclusion of the hearing.]

Mr. PENNY. Thank you.

Next, Ms. Colon.

STATEMENT OF SHARON L.L. COLON, VICE PRESIDENT, AREA MANAGER, UNITED STATES AND CANADA, CoBANK—NATIONAL BANK FOR COOPERATIVES

Ms. COLON. I will summarize my prepared remarks and ask that the entire statement be included in the record.

Mr. PENNY. Without objection.

Ms. COLON. The bank provides financial services to farmer-owned cooperatives; rural utility systems—including electric, telecommunication, water, and waste disposal systems; and facilitates the export of U.S. agricultural products. Over the past 10 years, CoBank has financed $17 billion in export sales to over 40 countries involving about 30 agricultural products. To assist the bank's customers, we recently opened an office in Mexico City and it is our first one outside of the United States.

As a U.S. bank, CoBank is the single most active lender under the USDA export credit guarantee programs. In recent years, we have accounted for about 40 percent of all the guarantees issued under the GSM credit guarantee programs. Because of our deep involvement in agricultural export activity, we applaud the efforts of the administration and Congress to make our Nation's export programs more effective.

Frankly, CoBank is not in the best position to comment on specific changes being discussed about the formal organizational structure of the USDA. However, we feel that the Foreign Agricultural Service—or FAS—plays a key role in facilitating U.S. agricultural export trade.

We have cited four principles which we believe, if applied properly, will ensure the successful operation of these programs from the standpoint of all parties involved: For example, foreign purchasers, financial institutions, and U.S. exporters.

The principles we believe are important are as follows: The credit programs should continue to be the cornerstone of our export promotion programs. The availability of credit has been a critical factor in helping make U.S. agricultural products competitive in world markets.

The program should be user friendly and customer oriented. In this regard, the administration's stated intent to make Government more customer oriented is welcome.

We believe that the FAS staff should be knowledgeable and conversant about our country's export programs. In addition, that staff should be in touch with developments in local markets and be positioned to help respond to new developments, such as the privatization efforts taking place in Central Europe and other parts of the world.

We believe there is considerable merit in continuing to maintain separate programs intended to expand agricultural markets. While it may be possible and even desirable to coordinate USDA programs with those of other Departments, agriculture is a unique industry with unique problems and opportunities.

We believe that FAS information and education about U.S. agriculture and U.S. export programs and the opportunity to trade

with the U.S. agricultural industry play an important role in the success of our trade programs.

The FAS should be of more assistance in helping U.S. companies identify opportunities and develop foreign markets for processed or value-added products. Several years ago, for example, FAS officials were instrumental in helping purchasers in Mexico acquire nonfat dry milk from the United States on a commercial basis. That success has helped open a significant market for U.S. processed dairy products sold by private companies.

We strongly support any effort by the administration and Congress to make FAS and related Federal agencies more effective. Thank you.

[The prepared statement of Ms. Colon appears at the conclusion of the hearing.]

Mr. PENNY. Thank you for your testimony.

Mr. Webster, we will conclude with you and then we will have several questions for the panel.

STATEMENT OF PAUL WEBSTER, PRESIDENT, WEBSTER INDUSTRIES, INC., ON BEHALF OF THE AMERICAN FOREST & PAPER ASSOCIATION

Mr. WEBSTER. Thank you, Chairman Penny, and the other members of the subcommittees for the opportunity to testify today.

I come today as president of Webster Lumber Company. My family has been involved in the harvesting and sawmilling of hardwood timber in southeastern Minnesota and across the upper Mississippi Valley for over 90 years. My timber suppliers are farmers with small portions of their land growing hardwoods on steep, noncultivatable hillsides. I have several thousand of these farmer-suppliers that depend on me to buy their timber and their timber crop for cash.

Our industry, through a decade of experience with FAS export programs, has demonstrated that the programs work and are not in need of reorganization. FAS has the tools, structure, and the system in place to identify new markets and disseminate information. We believe that the OICD consolidation is a large and important step and this should be completed before any other significant changes are contemplated within the agency.

As Secretary Espy considers options for reorganization of the Department of Agriculture, our industry recommends that the current FAS structure which has worked so well in the past be enhanced rather than changed.

Second, we have seen a proposed organizational structure or chart which would merge the marketing functions of the product divisions into one single division. This proposal would reduce the effectiveness of the export program by separating marketing from the analysis and the trade policy, in effect, downgrading the marketing staff by reducing the staff's expertise in given product areas and creating a large department of generalists. We don't need more generalists.

We do not support the merging of all marketing staff into one division. The current structure allows for meaningful interaction with experts on both the analysis and the marketing of individual commodities. The effectiveness and success of the forest products

program are a testament to the partnership that exists between our industry and the individuals who have worked in this division.

We strongly recommend that the subcommittees urge FAS to stop this unnecessary reorganization and maintain and improve the current successful structure by increasing communication and coordination with the FAS trade policy function, which coordinates FAS's trade policy, information gathering, analysis, and marketing generate an export promotion program that is synergistic and unparalleled in effectiveness.

We urge strong support for the current overseas FAS staff. We rely on the information and trade policy reports from these posts and from the analysis of the domestic marketing staff. When a new market opportunity presents itself, it is usually the overseas post who is first to alert us in our industry. We then take that information back to our members to devise strategies for promotion.

FAS also helps us to monitor and evaluate our gains. This analysis has helped focus the export picture more clearly on value-added gains, the most rapidly growing export sector in the wood products industry. Any proposal for reorganization, we hope, would be discussed with the agricultural commodity groups using the program.

When Secretary Espy speaks of the need to focus on export marketing activities, he is talking about how to make a good program even better. We know we can help. We ask FAS to reach out to its partners in export promotion for their ideas and concerns. This dialog needs to be initiated when the Department is in the formative stage of its decisionmaking process.

Finally, a word about the national export strategy issued by the Trade Promotion Coordinating Committee. The TPCC report focused on increased coordination between trade policy and marketing initiatives, taking advantage of trade policy created, export opportunities, the need for priority driven programs generated by a rigorous methodology and the identification of programs which best reflect each agency's comparative advantage in delivering priority export services.

We know of no other Government program that is as effective in meeting the objectives set forth in the TPCC directive as the cooperative FAS industry export expansion program.

On behalf of our industry, I would like to thank you, Mr. Chairman, for your strong support of FAS programs and your commitment to listen and work with us as we make these programs more effective.

Thank you.

[The prepared statement of Mr. Webster appears at the conclusion of the hearing.]

Mr. PENNY. Thank you, Mr. Webster.

Mr. Horn, do you have questions of this panel.

Mr. HORN. Thank you, Mr. Chairman. Just a couple of brief questions. I am interested in your testimony, Mr. Webster, on the relations with FAS, and I would like to ask all of you, including you, Mr. Webster, who has touched on it, what is the typical relations you might have with FAS in the course of a month or a year that relates to focusing on where new markets might be, in your case, in the hardwood industry and where perhaps they should be locating additional resources.

Just tell me how that dialog occurs. Is it by your national association or do you, as an individual entrepreneur, get into it?

Mr. WEBSTER. As individual entrepreneurs, we are absolutely dependent on our national association working through the American Hardwood Export Council which in turn works with the FAS management promotion program. It is a solid stream.

I am a very small operator. I have no access to international markets. To travel abroad to establish markets of any kind is probably $500 to $1,000 a day and my business can't stand that and there are hundreds and hundreds and hundreds like me, we are very small operators. But the market promotion program and AHEC and FAS has put together this stream so that there is a weekly flow of information mailed to us by our overseas offices that have been established by FAS and American Hardwood Export Council.

We read the promotional materials, materials saying that we noticed that certain markets are accepting different kinds of wood or could use these kinds of wood, there are different types of customers seeking materials from producers such as myself that don't have contacts with American people, that they put buyers and sellers together.

Mr. HORN. You found that fairly effective in your case to really add bills overseas for you.

Mr. WEBSTER. I think it has just been a wonderful program. The FAS program started in 1985 on $3 billion of exports in the forest products industry. Today it is up to $7 billion. In 1993, it is going to be $7.5 billion and we are estimating in the year 2000, it is going to be $12 billion to $15 billion if these programs stay in place or are enhanced. We are tremendously impressed by it and, frankly, the only thing additional we would like to have—and I don't know if I can bring it up at this hearing, but I have——

Mr. HORN. Don't be bashful.

Mr. WEBSTER. All right. The new GATT round is coming up December 15. And the wood fiber industry would love to have a level playing field, zero-zero tariffs. We would love to have a level playing field. We bump into tariffs in Japan and several other countries all the time and all that our industry asks is a level playing field. And our industry is highly fragmented.

We are a bunch of very small operators. There are a few big public companies, but we are primarily small operators. This market promotion program has been wonderful for us. Every dollar that the Government has invested has yielded $394 in return. It has just been a wonderful program for us and we hate to see you disturb anything that doesn't need to be fixed and it works so well, sir.

Mr. HORN. I thank you. Ms. Colon, do you share Mr. Webster's enthusiasm?

Ms. COLON. Yes, I do. If I may go back to my example that I stated in the testimony regarding nonfat dry milk. Prior to 1988, Mexico had always been a regular customer of the United States for nonfat, primarily from the CCC stocks.

Back in 1987, early 1988, it became apparent that the stocks had been so depleted that the CCC advised the Mexican buyer at that

time, a public sector entity called Conasupo, that it did not have nonfat or would not have nonfat to sell in the coming year.

The message that Conasupo heard was that the United States was out of nonfat. Since 1982, we have been involved in Mexico, lending under the Government credit programs, and we introduced the idea to them of utilizing these United States programs to purchase nonfat on a commercial basis. We also introduced them to FAS employees involved to get a line item in their allocation under GSM for nonfat. That particular year, 1989, GSM registrations were over $100 million for nonfat and CoBank financed a significant portion of that amount.

Mr. HORN. So you are happy?

Ms. COLON. We are happy.

Mr. HORN. Anything else they could do to improve their operations?

Ms. COLON. The way we use FAS, or the way we partner with FAS both overseas and in DC, we have eleven officers at the bank who travel overseas, and as part of their regular calling program, they meet with the attachés in their respective markets as well as discuss with their Washington counterparts what types of products are of need in those respective areas.

Mr. HORN. So there is a desk officer you deal with in Washington as well as joined missions overseas.

Ms. COLON. Yes.

Mr. HORN. Would you say there is also weekly communication or even more than that between your CoBank and officers of FAS?

Ms. COLON. In certain areas, it could be weekly.

Mr. HORN. And let me ask you, Mr. Seng, you do not seem to like the way the system is working if I catch your drift. What could be done to improve it and what type of contacts or communications do you have with FAS on a weekly, monthly, yearly basis.

Mr. SENG. I would say, I think that FAS has been a very good example of the private/Government partnership thus far. I would also like to submit that you know it has been a very good example. It is a classic example, and many other industries and groups here, I think, in the United States look at it with a lot of envy.

I think our opinion is if something is not broke we still can work to improve it, and I feel with FAS, there is still room for improvement and that is the vein in which I am approaching this morning. The MEF is maybe a little different. We have eight officers internationally. We have expertise in these offices with language and cultural expertise.

Our people, internationally, work with FAS almost on a daily basis. Domestically, I think we are concerned because the function of FAS, economically, has been much more administratively oriented than marketing oriented and, of course, the people we represent: The major packers and producers that are interested in what our marketing skills are and objectives are and how we obtain our goals.

So domestically we deal with FAS at two levels: One is with dairy, livestock, and poultry. That primarily is dealing with the compliance and admin, et cetera. That has changed. On the other hand, we deal with the International Policy Trade Division of FAS.

That has been very successful. We deal with them on issues pertaining to GATT, NAFTA, tariffication and ratification of quotas.

I think the major shift we have seen with the advent of the MPP program and probably the earlier program is to switch from marketing and reporting to now much more of an administrative compliance function of the organization. That is basically what we observe.

A lot of this is inspired by GAO reports, et cetera. I think, on the other hand, the focus on long-range planning and what we are trying to achieve has probably been missed because of this.

Mr. HORN. You feel they are filling out paper more than to justify the mission than actually going out and doing the mission.

Mr. SENG. In our proposal, the request letter for the loan was about 250 pages last year which will probably never be read again, and then our proposal for our plans was 650 pages which will probably never be read again except by possibly the competition.

We feel a little less emphasis in that area, do more long-range planning and be much more marketing driven and will produce this tremendous, onerous process we have in getting these plans through.

Mr. HORN. Is there an annual process they use to ask industry, both the national association that is represented plus the installer firms or do they depend on the national associations in the industry to come in with a consolidated position?

Mr. SENG. Everybody is treated equally, so whether you are a national organization or a small organization or a small cooperator, so to speak, they have the same rules and guidelines, and they are just as onerous for the installer people as they are for the larger people.

Mr. HORN. I think with a smaller organization, we are trying to keep low overhead, get the job done, that you would have a lot of problems with not having sufficient staff to fill out a complicated form. Whereas you might have a great idea, is there a possibility you can pick up the telephone and get somebody on the other end and say, have you thought about exploring this area as a new endeavor of the marketing and activity for American products?

Mr. SENG. It is not that easy in dealing with FAS because there are many different levels of steps and people you deal with in order to get your plans approved. Again, I would add, going back to your initial question. Just in MEF–Denver we have increased the staff by three times, the Department that has to deal with FAS in dealing with plans and approval in the last 3 years.

Mr. HORN. Have you seen any pay-off in terms of products sold as a result of all that planning.

Mr. SENG. I think we see this onerous process as necessary in order for us to achieve and realize the export gains we have internationally. We feel with our directors overseas and our staff domestically, if we could devote more time to the marketing side as opposed to this processing side of the paper that we deal with, it would be more productive. We could be more productive than we are today.

Mr. HORN. Based on the experience all of you have had with overseas offices of FAS, do you feel they are selected for their marketing skills or their coordination of paperwork skills?

Mr. SENG. I feel, to answer that question, I think that the people that FAS have are very capable and very dedicated employees. I have tremendous respect for these people. On the other hand, everyone that has basically an economics background, they have to have a master in economics, basically to work at FAS.

I think we feel and what we propose in our presentation this morning is that there would be a little more interface with the industry. More of a marketing background, more of appreciation and there is an appreciation—more of an appreciation for what it takes to produce the product. What is involved with the product, some of these types of things we are looking at ways to improve. But as far as the skills and dedication of people at FAS, I think they stand alone in some areas.

Mr. HORN. Let me make one more subquestion and I want to call on Ms. Webster to answer both of those and Ms. Colon. Do you see them more in a reporting function of what goes on in their country much like a typical State Department diplomatic officer or military attaché that reports to the Pentagon that are trying to keep you apprised of developments in the sense of a critical nationalist of what they are seeing in agriculture?

Mr. SENG. Can I qualify that answer. I see them reporting expensively from FAS's standpoint. There are few services there. I think with the MEF, again, with eight officers internationally, our people substitute for FAS employees overseas because they are involved with the market, meeting the buyers, working out specifications. And they also do an extensive amount of reporting.

You take the example of Jim Parker in Tokyo which is one of the largest posts overseas. They have a tremendous staff that does a lot of reporting and, of course, we would do a lot just independently because we have a position there in the market as do a lot of other cooperators including wood products. But a lot of markets in my testimony, I talked about a long-range strategy.

FAS plays a very vital role because those are the future markets. FAS was in Mexico long before we were in Mexico. Now that is our second largest market. They were in Korea long before us. That is our third largest market. So they initially, on a long-term basis, get things done where companies would be reluctant to go in and spend for that long investment to get something done. That is where FAS and the cooperators can do that. So that is a very complementary role which I am trying to bring out this morning between the cooperator and FAS that should be fostered in this process.

Mr. HORN. I think you made a good point.

Mr. Webster, you want to comment?

Mr. WEBSTER. That was said very well. The people that we cooperate with in FAS program that are in our offices, we have—our own American Hardwood and Export Council has its own people and FAS are cooperating with us. They are complementary. We don't depend on one to do one job or the other. They complement each other in skills, help one another to do the job and the job again, in my perspective, has done extremely well.

I would like to make one comment to you, sir, that I didn't make before, but I think this is probably the time to do it. One of the things that possibly could be addressed in FAS is to get an admin-

istrator on board to direct the activities of this group. It at times kind of cruises along with a good, stiff rudder in the water and give it proper direction and focus constantly, and maybe that would be helpful. That might be helpful on an ongoing basis, but we feel that the quality of employee that we deal with on a day-to-day basis is just fine. We are very pleased with them.

Mr. HORN. Ms. Colon, do you have any comment?

Ms. COLON. I think we agree in that the quality of the employees at FAS is very high. We find, however, that the employees on the ground in overseas markets are more market focused than the people in Washington.

Mr. HORN. Is there a rotation education process where you serve some time in Washington, some time overseas to get a feel for what both sides do?

Ms. COLON. I am not sure how they rotate.

Mr. HORN. We might want to ask that of the administrators. Let me ask you, Mr. Chairman, what are the plans of the joint subcommittees? Are they planning to have FAS Administrators back at all after this discussion with people in industries or is this going to be a submission of written questions? What are the plans?

Mr. PENNY. I think we are going to proceed to review this in an informal setting, some of the recommendations that have come from industry regarding the performance of FAS. I think, for starters, that would be more productive than another committee hearing and if, based on that, we have several proposals that seem to make sense, we may proceed with a legislative document and then go to a committee meeting to review and discuss that proposal.

Mr. HORN. Fine. I commend you and Mr. Condit for holding these hearings. I am sorry I have to leave for another commitment. Thank you all for coming.

Mr. PENNY. Mr. Seng, I know this follows on the line of questioning conducted by Mr. Horn. But I am concerned about the assertion that I can't do a multiyear plan with FAS. We heard testimony from the Department that multiyear plans were accepted. Is there a breakdown in communication here? Are the policies ambiguous? What is the cause of the difference of opinion on this point?

Mr. SENG. I guess there are 2 years that we receive funding from FAS. One would be from the FMDO project funds, as they call it, which have been in effect for the last 3 years. That is on a year-to-year basis. As far as the MPP program is concerned, we have only been operating on a 1-year basis as far as this is concerned.

Mr. PENNY. I think that program in particular is the program where they have indicated that multiyear contracts are possible.

Mr. SENG. That would be news to me.

Mr. PENNY. Are you asserting that in both categories, a multiyear contract of sorts would be preferable?

Mr. SENG. Yes. My impression would be as maybe on the project funds we can probably operate on a year-to-year basis, but on the MPP funding, definitely a multiyear plan—5 to 3 years—would be, I think, best in our interests.

Mr. PENNY. You talked about 6 months of paperwork and processing that is required of the application in order to get that renewal or that new contract if perhaps you are moving into a new

area. Is that a relatively recent development? Was there a time years ago when the timeframe was shorter?

Mr. SENG. Well, initially under the TEAP program it would seem to be shorter. Our fiscal year would be the Government fiscal year, October through September, but because of the inordinate delays we have had, we extended our fiscal year on MPP to April 1. That is 6 months from the beginning of the fiscal year, obviously. This year alone we will not have MPP plans for 1994 available even by April 1.

Now in the meat area, we probably don't have as much of a problem because we don't have the seasonality of product. But in some of the horizontal areas, this is a major factor.

Mr. PENNY. You are halfway into the year before you can get assistance and, by then, it is too late for most commodities.

Mr. SENG. We have found we have about 6 months in order to react, activate, and do our activities in the way it is averaged.

Mr. PENNY. Do you suggest we analyze program effectiveness, if we don't put this on a year-to-year leash, which is one way of providing a check on the use of the funds. How better could we——

Mr. SENG. I think that the participants, either the cooperators or the cooperators in conjunction with FAS developing these plans would come up with maybe a 3- to 5-year plan. At that point in time, they would set very definite quantifiable goals.

Mr. PENNY. Just measure against those goals rather than going through a whole new round of paperwork.

Mr. SENG. You said you have goals and have certain activities under those goals and breakout or markets. And every division under FAS—I think there are nine—would have different commodity groups within that. You would set up your goals depending on how you want to break down your market. There would be certain activities attendant to that. You could adjust those where need be.

But the idea, you are lifting your goal. For example, in meat exports, if we project 2 billion in the next 2 years, where are they coming from? And if you haven't, you adjust your plans accordingly.

Mr. PENNY. You indicated that foreign promotion on the part of the United States represents about 1 percent of sales. Is that foreign promotion from Government sources?

Mr. SENG. The foreign promotion, for example, in the case of Australia, they would spend 20 to 1 per annual unit compared to the United States, that those dollars would be primarily from the private sector. On the other hand, Denmark, a major competitor of ours in Japan for pork, would spend close to about $50 million in Japan promoting Danish pork. We spend about $500,000 in Japan promoting pork. And the source of funding from Denmark would be Government.

To answer your question, we deal with mostly the privateer sector.

Mr. PENNY. How do you feel you compare in terms of private sector investment. It is pretty clear by the record that in terms of Government support or Government funds complementing private funds, that we are well behind the pace of our competitors. But how about private sector contributions.

Mr. SENG. On the private sector as well as all the major countries, we have the lowest level of private sector expenditure as well.

Mr. PENNY. You indicated that meat products were almost half of the U.S. value.

Mr. SENG. Yes, gross receipts of agriculture.

Mr. PENNY. And the biggest markets would be our immediate neighbors?

Mr. SENG. The biggest markets I am saying of all gross receipts of all agriculture——

Mr. PENNY. No, for processed meet.

Mr. SENG. Japan, Mexico, and Korea would be our largest export markets.

Mr. PENNY. Largest for the meat products. That is amazing. You also testified that our marketing follow-up suffers from inherent weaknesses. In what way?

Once we establish a presence in a market, you implied in your testimony that we don't have a very good follow-through.

Mr. SENG. I think the record shows in most areas today we spend about $7 million in Japan promoting meat exports. This is beef, pork, and lamb. Australia spends about $26 million alone just promoting beef. The record shows that if you go back to 1988 with Japan, beef and citrus agreement with Japan, we have a record internationally of opening up markets and then we don't dignify those negotiations with the follow-up marketing programs.

My point is, when we work so assiduously to open up markets, whether it be GATT, NAFTA, the Japanese market, whatever the case might be, in negotiations we should have the programs, the marketing programs attendant to those negotiations to dignify those negotiations. What happens so often is our competition—and our very worthy competition—comes in and of course they will supplant us in those markets we have worked so hard to open up.

Mr. PENNY. Mr. Webster, you talked about hardwood export market growth. I think specifically you gave us statistics from the 1985 and 1992 timeframe.

Mr. WEBSTER. Yes, sir.

Mr. PENNY. Where is the greatest growth occurring in terms of our export market for hardwood and other wood products.

Mr. WEBSTER. Primarily Japan, Taiwan, and Western Europe.

Mr. PENNY. Were these finished products.

Mr. WEBSTER. These are value-added products. These are not logs. These are plywoods, hardwood lumbers, furniture parts, dimension products that go into kitchen cabinets and so forth.

Mr. PENNY. We have heard from a lot of other processors that we need to be item-specific and brand-specific in our promotion efforts. This is an industry that hasn't opened up markets in that fashion.

Is that simply because of the unique nature of the wood products industry or do you think that generic promotion is a sufficient area of emphasis for our country?

Mr. WEBSTER. Well, generic promotion works for wood because most people don't really worry about the name on a sheet of plywood or the name on a 2 by 4 or the name on a shipment of hardwood lumber.

Our products disappear into another form once they reach their customer. Our industry has never really promoted brand recognition with exceptions of finished products and there are some publicly owned companies that promote their brand name.

Mr. PENNY. How much of this export growth has been in finished products which is to say furniture and other wood products?

Mr. WEBSTER. I can't give you a specific percentage or number, but most of it has been value-added.

Mr. PENNY. In some fashion, but it wouldn't necessarily be a cedar chest.

Mr. WEBSTER. No. Primarily our products going overseas are not finished products like furniture cabinets. They are pieces.

Mr. PENNY. Boards cut to size.

Mr. WEBSTER. Cut to size and/or shaped, or what have you, and sent to a receiving country that again will make a finished product out of it.

Mr. PENNY. What we run into—you talked about some trade barriers in Japan to American wood products. Is this a commodity that is more encumbered with trade barriers than others or not. I am not sure how best to ask the question except some people feel that their particular product is restricted to a greater degree than other items.

Do you feel that wood products are particularly difficult products to export given the policies within Japan and other countries regarding import of these items.

Mr. WEBSTER. Japan is an impossible market, almost. I say that advisedly. The only real forest product that Japan receives from our country in large dollar volumes are logs. And they in turn process the logs in further form. They have tariffs that reach as high as 20 percent on most forest products excepting logs.

And all that our industry asks, Mr. Chairman, is that we are very efficient on a worldwide basis and we are very efficient, and we can compete with, in my opinion, with any country in the world. All we would like to have is zero-zero tariffs.

Mr. PENNY. That is true, even for wood items that originate in southeastern Minnesota, that we are competitive even though we are 1,000 miles from New Orleans.

Mr. WEBSTER. Yes, sir.

Mr. PENNY. A couple of thousand miles from either coast.

Mr. WEBSTER. On a monthly basis I am shipping to Germany, Taiwan, Korea. Yes, sir, we are very competitive and it has nothing to do with dollar-an-hour labor or 50-cent-an-hour labor. We are very competitive.

Mr. PENNY. How about the use of GSM credits for wood product sales on the international market?

Mr. WEBSTER. Well, without those, we would not have been able to get things going in Mexico, for example. They are very helpful, but I have to honestly tell you I am working on very thin ice now, and I can't speak to it. Would you like one of my associates to respond.

Mr. PENNY. That is fine. We can get some additional information. But I am trying to measure in terms of assistance we can provide to the GSM credits, the market promotion, the cooperators on the ground and the other FAS personnel on the ground in the market development arena. Evidently, you sort of use all of the tools available for your commodities.

Mr. WEBSTER. Yes, we use all the tools available, but we have not used the GSM credits.

Mr. PENNY. To any great extent. You said you did utilize them in Mexico.

Mr. WEBSTER. This is not the key.

Mr. PENNY. You have largely been handling the financing on your own and, to date, your assistance from FAS has been either the kind of market analysis assistance or the market promotion program.

Mr. WEBSTER. That is correct. The MPP has been the big item and the FAS side of it has been the most helpful to it.

Mr. PENNY. Ms. Colon, you indicated that I think 40 percent of U.S. GSM credits were—have shared—were originated through CoBank?

Ms. COLON. Yes.

Mr. PENNY. Are there any other major American financial institutions involved with GSM programs?

Ms. COLON. There are other U.S. banks involved, but not to the extent that CoBank is.

[Additional information submitted by Ms. Colon follows:]

Not on a consistent basis and not to any meaningful extent. We estimate CoBank and the next four most active banking participants in the GSM programs account for more than 85 percent of the total GSM business. CoBank is the only U.S. bank in the top five most active lenders with the GSM programs.

Mr. PENNY. I mean you are 40 percent. Are there any that would even approach 5 percent?

Ms. COLON. Not that I am aware of.

Mr. PENNY. The international financiers, are there three or four that are predominant in this area?

Ms. COLON. There is one in particular.

Mr. PENNY. That is.

Ms. COLON. From the Netherlands, Rabobank.

Mr. PENNY. You mentioned in your testimony that the foreign financiers don't have the same commitment to the U.S. ag economy that a domestic financial institution might have. What do you believe the advantages are—can you document that there are financial advantages to American farmers, producers, given CoBank's involvement as opposed to the involvement of some foreign financial institution?

Ms. COLON. I don't have specific examples but believe, as a U.S. bank, we understand better what our farmers want and we promote the export of their products under the U.S. Government programs.

[Additional information submitted by Ms. Colon follows:]

Foreign banks can't be expected to promote the sale of U.S. agricultural products. They're in the business of financing trade transactions to generate a profit, and the origin of the product is immaterial. Also, foreign banks often respond to the policy direction of their governments. For example, prior to the end of the cold war French banks had been heavily involved in financing U.S. agricultural exports to the Soviet Union. When the French Government developed its own credit programs to assist the FSU, French banks largely withdrew from financing U.S. exports to the FSU.

Ms. COLON. It was the GSM program, I believe, that helped get Algeria to purchase wood products from the United States which was good for the wood industry.

Mr. WEBSTER. That is correct. Algeria and Egypt, both, that is correct.

Mr. PENNY. In the wood industry.

Ms. COLON. To a limited extent.

Mr. PENNY. Are there limitations, the types of sales that CoBank——

Ms. COLON. Yes.

Mr. PENNY. Do they have to be agricultural?

Ms. COLON. Under our regulations, not only do they have to be agricultural, we can only finance those commodities that are originated from our co-ops and, unfortunately, in the way of wood, there are not a whole lot of wood co-ops nor are there a lot of co-ops involved in meat. Therefore, we are unable to finance these commodities to any great extent.

Mr. PENNY. It is primarily grain and dairy?

Ms. COLON. Correct. And some others—high-value products like fruits, nuts, vegetables.

Mr. PENNY. Should we put a limitation on the ability of foreign financial institutions to participate in this program? And if so, other than CoBank, who would benefit?

[Additional information submitted by Ms. Colon follows:]

I don't believe so. From a public standpoint, our primary interest should be to make U.S. agricultural products as desirable as possible from the purchaser's standpoint. If financing from a foreign bank helps achieve that goal, I don't think we should object. Also, I believe there are international agreements that require the U.S. to treat foreign and domestic banks in a similar fashion. And, of course, we could not support the idea of CoBank being discriminated against in a foreign country.

Mr. PENNY. If we put a limitation, would other American financial institutions step forward or is CoBank the only firm that has any interest in this GSM program.

Ms. COLON. I think when the program was introduced, there were a lot of U.S. banks involved, but with certain defaults that happened in certain countries, they have exited the program.

Mr. PENNY. There were defaults, but they had significant protection on those defaults. I mean, there must be defaults to CoBank as well. Why haven't you gotten out of the business? If others have exited the business, why is CoBank making money?

Ms. COLON. Well, we have a funding source that is unique.

Mr. PENNY. In terms of the co-op, the ability of the co-op to secure lower interest financing, as compared to private institutions?

Ms. COLON. We fund ourselves by issuing bonds and discount notes. We are not a bank of deposit.

Mr. PENNY. So that allows you to stay involved in an area that might be more financially risky for a private bank. When I say private, not that co-ops are not private, but they are structured differently.

Ms. COLON. Right.

Mr. PENNY. What about value-added commodities? And I know of your involvement with dairy products, but there has been tremendous amounts of testimony today about the growth of value-added exports. And I am just curious to know what share of your loans involve bulk commodities and to what extent you are financing value-added exports and what are the trend lines? Are we seeing a growth in the value-added arena as time goes by?

Ms. COLON. Yes. Until the late 1980's, basically all of our financing was for bulk ag commodities. With the emphasis on high-value products, we see an increase in the amount of dollars going to high-

value products, semiprocessed as well as processed high-value products. For example, last year we saw an explosion, if I can use that word, of financing of barley malt.

Mr. PENNY. It appears that you are basically structured to provide financing commodities—either bulk or processed—that are originated by your member institutions, other co-ops.

Ms. COLON. Yes.

Mr. PENNY. And the GSM credits are then requested by individual member co-ops and they make an application to CoBank. CoBank in turn applies for the GSM credit or does the member co-op make an application in both categories to you, but also to the Department?

Do you secure—in other words, you secure directly the GSM credit for this sale on behalf of the member co-op that is trying to make the sale, or does the member co-op sort of identify the market and then work with both the GSM program and CoBank to secure the financing.

Ms. COLON. The GSM operates on a commercial basis in that the guarantee is given to the actual exporter.

Mr. PENNY. The exporter turns to CoBank for financing.

Ms. COLON. The exporter, right.

What they do is assign the guarantee that is given by the USDA to them over to the financial institution.

Mr. PENNY. Do you see an increased interest on the part of your co-op members in doing more to develop nonfood, nonfeed uses for the commodities they grow?

Ms. COLON. Yes. I am sure you are aware most of our cooperatives are in the raw or the production side of agriculture and very few of them are on the processing side. We are seeing a trend of co-ops going into the processing side.

[Additional information submitted by Ms. Colon follows:]

We think there is a lot of interest in this area. However, not many of our cooperatives have the equity capital to invest in research and development. Most of the innovations in this area seem to be coming from entrepreneurs or small companies that appear to be in need of financing. CoBank intends to explore this area and determine if there is a need we can meet consistent with our mission to serve agriculture and rural America.

Mr. PENNY. And you are also a financier for those expansions or innovations in the industry.

Ms. COLON. For example, ethanol plants.

Mr. PENNY. And statistics would bear out that CoBank is financing an increasing number of ventures in that regard?

Ms. COLON. I would think so, on the domestic side.

Mr. PENNY. If you have some documentation in that area, I would appreciate seeing that. We can put that in the committee record.

Ms. COLON. OK.

Mr. PENNY. I think we have covered enough ground this morning. I want to thank the witnesses and at some point, either between now and Christmas or early next year, we will try to have a roundtable discussion with some of the industry leaders, sit down with some of the people from the Department and we can kick around the various recommendations that have been made for improving and streamlining and refocusing the FAS programs.

So thank you for your participation this morning and we look forward to your continued help as we move to the next level.

The subcommittees stand adjourned.

[Whereupon, at 11:20 a.m., the joint subcommittees were adjourned, to reconvene subject to their respective Chairs.]

[Material submitted for inclusion in the record follows:]

Testimony
of Robert L. Walker
Before the House Subcommittees
on Foreign Agriculture and Government Operations

November 16, 1993, 9:30 a.m.

Good morning, Chairman Penny, Chairman Condit.

Thank you for this opportunity to join in this important discussion of the factors affecting the international competitiveness of our nation's largest employer -- agriculture.

I want to commend both of you, Chairman Penny and Chairman Condit, for conducting these hearings on the future mission and role of the U.S. Department of Agriculture's Foreign Agriculture Service (FAS). All too often, we spend our energies on issues of the moment, on putting our fires, and do not step back, in this case, to see the international landscape and to stress how changes in that landscape affect our federal policies and programs.

Let me say at the outset that I have a strong interest in international marketing of U.S. agricultural products. As Maryland Secretary of Agriculture, as Chairman of the National Association of State Departments of Agriculture's World Trade Committee and as a participant on various overseas missions for the World Bank and others, I have had an opportunity to travel in this hemisphere, Europe, Asia and the Middle East. And everywhere I travel, the story is the same. U.S. agriculture is the envy of the world. People all around the globe want what we produce. They are looking to us for assistance and leadership.

I have talked with agricultural attaches from Tokyo to Tel Aviv, from Mexico to Moscow, from Cairo to Kaosiung. There is no question that the interest in U.S. agriculture is intense. There is no point in being timid about this. The U.S. is still the number one agricultural nation in the world. This is our strength. In my view, it is imperative that we play from this strength.

Since it was established 39 years ago, FAS has produced its full share of economic benefits for U.S. agriculture and agricultural products. This has been particularly true of bulk agricultural commodities. But in reality, the world is changing and FAS must change along with it.

We are poised on an extremely exciting time. We are the leading food producer in the world and everywhere you turn there are growing consumer markets eager for what we produce. We must position ourselves to take advantage of the tremendous economic opportunities now before us. We cannot afford to sit back and allow the vast potential agricultural marketplaces to slip away.

For example, there are three major growing markets in the world that want U.S. agricultural commodities. And there are not just interested in bulk products. More and more as each day passes there is an increased interest in our processed food. In short, what I am saying is that value-added food products are the wave of the future. People want the value-added food products that we produce. We would have to be short-sighted not to take advantage of this increased demand. To neglect this chance for exporting food products on a large scale would be a tragedy, both for our food manufacturers as well as the people of the world.

The three growing markets that are particularly significant are in East Asia, Mexico and Latin America and the Caribbean, and the vast potential of Eastern Europe and the former Soviet Union. I can assure you that there is significant opportunity out there and if we in this country don't fill it, someone else will.

Let's look at Japan, Singapore, Indonesia and other Asian countries. In these areas there are dynamic economics and a growing middle class that can afford more sophisticated food products. Their lifestyle is changing dramatically. These people are increasingly interested in ready-to-eat and easy-to-prepare food products.

According to the FAS, sales of pre-cooked take-out food in Japan alone totaled $40.9 billion in 1991, and are expected to reach $95.2 billion by the year 2000. These figures suggest that as more and more people in the Pacific Rim countries eat on the run, U.S. food producers should give serious consideration to this expanding market. There is a snack food diet revolution taking place in Asia.

A similar picture of increased demand is clear in Mexico and by extension Latin America. On a trade mission to Mexico with Maryland Governor William Donald Schaefer this past July, I found that the Mexicans are particularly interested in our poultry and processed food products.

The approval of the North American Free Trade Agreement (NAFTA) tomorrow will enhance expanded export opportunities in Mexico and, through Mexico, to Latin America. U.S. agricultural exports to Canada and Mexico already make these two countries combined our largest agricultural export market.

A third area of major opportunity is Eastern Europe and the former Soviet Union. This is an area, of which of I have considerable personal experience and knowledge. As a matter of fact, I just returned from St. Petersburg and have traveled to this part of the world on numerous missions to study their agricultural system. Let me just say that in this region of the globe the potential for U.S. agriculture is as vast as the Russian landscape. A population of more than 150 million in Russia is literally hungry for U.S. food.

It is also important to note that despite the wrenching economic transformation currently under way in the Russian Federation, the market for imported high-value food and beverage products is growing even in this part of the world. Many Russians are willing to spend extra money to purchase imported foods and beverages, especially if they believe that these products are of high quality.

It goes without saying that market development work in the Russian Federation is in its infancy. Given the right preparation and an understanding of the different variables, however, U.S. exporters could reap huge rewards. Unfortunately, products from the European Community dominate shelf space.

This is where a re-vitalized FAS comes in. I cannot over-emphasize the point enough, that as we move toward the year 2000, FAS must adapt to the changes in world agricultural trade patterns. Already more that half of all U.S. agricultural exports are high-value, value-added products. It is imperative that FAS develop the marketing knowledge and expertise to assist U.S. exporters to sell these products. If not, a golden opportunity will be lost.

As we move towards the next century, it is important that FAS organize itself to conduct more market research that impacts on the market U.S. companies are attempting to penetrate. This will help companies adapt their products to meet the needs of the foreign consumer. What is required is a value-added products division that focuses its entire energy on consumer oriented products. Under this division, I think it is essential that FAS have a staff that is trained to deal especially with small and, medium size firms, as well as with large companies.

Instead of cutting back, I believe that the Market Promotion Program (MPP) should be expanded. This past year, some 18 small- and medium-sized Maryland companies participated, many of them getting into the export market for the first time. I believe that MPP needs a larger budget and that the number of products that qualify for MPP matching funds should be expanded. This is particularly important for small companies that often have innovative products with excellent export potential, but lack the resources to market them effectively overseas.

As the head of a state department of agriculture, I also believe that FAS must develop closer ties to the state departments of agriculture. We must work more closely together in a coordinated effort. In the competitive international marketplace we cannot afford duplication of effort.

In my view, the consolidation of the Office of Cooperation and International Development and FAS will avoid many overlapping functions and responsibilities. I think we all agree that efficiency is of the essence. I am concerned that the proposed new name, the International Trade Service Agency, does not reflect the important development activities of OICD at

In addition, to facilitate this requirement for increased efficiency, FAS must employ all of the latest technology at its disposal. For example, FAS needs to introduce a program to allow a wider distribution of its trade leads electronically. Also, the trade policy staff must be expertly trained to deal with problems relating to import standards.

All this has to happen while there is more market research on high value added products and their distribution. FAS must help U.S. food manufacturers understand fully how the international market works. It is truly amazing to me, and also frightening, how many small and medium U.S. companies have little idea how to sell beyond their borders.

These are just a few of my ideas on the direction FAS must take to help U.S. producers take advantage of the vast market potential we see all around the globe and particularly in Asia, Latin America and in the former Soviet Union. Let me repeat again that this is an extremely exciting time. The economic stakes are enormous. We cannot afford to stay on the sidelines. It is in our economic interest and in our national interest not to let this economic opportunity slip by. It is imperative that FAS be ready to aggressively pursue these exciting market possibilities. Again, the demand is there. We must be ready to take advantage of it.

Thank you for allowing me to testify before these distinguished committees. I would be happy to attempt to answer any questions you may have.

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STATEMENT OF
PAUL F. O'CONNELL
DIRECTOR
ALTERNATIVE AGRICULTURAL RESEARCH & COMMERCIALIZATION (AARC) CENTER

BEFORE A JOINT HOUSE OF REPRESENTATIVES HEARING OF THE SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER AND THE SUBCOMMITTEE ON INFORMATION, JUSTICE, TRANSPORTATION AND AGRICULTURE, COMMITTEE ON GOVERNMENT OPERATIONS

November 16, 1993

Mr. Chairman and members of the Committee: As Director of the AARC Center, I value the opportunity to discuss the activity underway in USDA's Alternative Agricultural Research and Commercialization (AARC) Center. I envision considerable potential to expand the commercial use of agricultural materials (traditional and new crops, animal byproducts, and forestry materials) in industrial products for both domestic and export markets. The result will be that farmers and other businesses will generate jobs and economic activity. Much of the agricultural and forestry material will be processed in rural areas because of the bulky nature of the agricultural materials to be processed -- hence, providing sustainable rural development based on the natural and renewable resources of rural communities.

Over the past seven years, I have helped establish and administer programs such as the Sustainable Agriculture Research and Education (SARE) Program, the Regional Aquaculture Centers, the work of the Office of Agricultural Materials, and the AARC Center-- all of which received high marks at the grass roots level. I have seen the tremendous progress that can be made working cooperatively with private entrepreneurs. My experience strongly suggests that

individual and business entrepreneurs are the key innovators in our economy. However, they often need assistance in transferring promising ideas into commercial products.

BACKGROUND

One hundred fifty years ago, most of our non-food consumer products and industrial raw materials were derived from plant matter in all its forms - fruits, vegetables, grains, grasses, bushes, and trees. The rest came from animal matter, and from inorganic (noncarbon-based) minerals like sand, iron, and other metal ores. Then came the discovery of fossil fuels, whose name derives from the fact that they are the fossilized remains of living matter. Like living matter, fossil fuels are organic (carbon-based) materials; they are composed primarily of hydrocarbons. But because they are dead matter, fossil fuels are called minerals: organic minerals.

In the mid-nineteenth century, hydrocarbons began to vie for industrial supremacy with carbohydrates from farm and forest materials. Coal, and later to a much greater extent petroleum, became the basic raw material of industry. Industrial uses of plant and animal matter stagnated.

Fossil fuels replaced renewable materials because they offered definite advantages. As fuels, they contain more energy by weight and volume, making them easier to transport and store. The liquid nature of petroleum, and the ease of liquefying natural gas, allow

them to be transported cheaply over long distances via pipelines, and to be more easily converted into by-product chemicals. By 1970, petroleum had routed carbohydrates in virtually every product category, except for paper manufacturing. Oil accounted for 70 percent of our fuels and more than 95 percent of our organic chemicals.

Now, just 20 years after the age of oil reached its peak, we are beginning to see the pendulum swing back in favor of an economy based on farm and forest materials. In the 1980s and 1990s, we discovered the disadvantages of relying primarily on fossil fuels.

- From an environmental perspective, all kinds of pollution, from acid rain to global warming, from smog to ground water pollution, have been linked to using fossil fuels.

- From a political perspective, relying on distant lands for our energy needs imposes very high national security costs.

- From an economic perspective, relying on imported raw materials when local alternatives are available at competitive prices, weakens local and regional economies.

In the 1990s, we may be witnessing a historic turn-around in the fortunes of renewable materials. The comparative economics of carbohydrates and hydrocarbons are changing. Advances in the materials and biological sciences are reducing the cost of

manufacturing renewable materials while environmental regulations are increasing the cost of hydrocarbon-based products. Moreover, the growing environmental consciousness has prompted many customers to willingly pay a "green" premium for carbohydrate-derived, environmentally benign products.

CAPACITY SITUATION

According to information presented to the New Uses Council last month by Pat O'Brien of the USDA Economic Research Service -- the U.S. has a well developed land base, with over 400 million acres currently being cropped on a regular basis and another 30-40 million acres readily available for conversion from less intensive uses such as pasture to intensive cropping. This resource base has changed little over time; the land currently in use is well developed, often at considerable capital expense, and there are few alternative uses. Conversely, bringing new land into use beyond the 30-40 million acres readily available for conversion would generally require significant capital investment. Hence, without a sharp and prolonged upturn or down turn in prices and returns to warrant acreage expansion or abandonment, this 400 million acre base will be used -- unless farmers are paid to idle it.

The U.S. has invested heavily in "growing" markets for bulk agricultural commodities -- the export market. The disappointing news is that despite major efforts, exports have been declining for major commodities. In the 80's, the U.S. share of the world market for corn slipped to 66 percent from 77 percent, wheat fell to

32 percent from 44 percent, and soybean exports fell to 66 percent from 78 percent. The U.S. has offered price discounts in excess of 30-40 percent in some bulk commodity markets and has pushed hard in every forum available to liberalize agricultural trade in the belief that the lower-cost U.S. commodities would eventually displace higher-cost products produced in importing countries or subsidized by other exporteers. The lack of success so far in the Uruguay Round and the growing cost of export promotion programs raise concerns about the costs and benefits of growing the export market. While few, if any, suggest that we abandon negotiations and export promotion efforts, more and more observers recognize that bulk commodity exports alone are not likely to answer our excess capacity situation.

The opportunity to expand markets for food in the U.S. are also limited. With population growth well below 1 percent and growth in income no longer generating net consumption increases, prospects for expansion are limited at best. While potential exists to expand quantity of food for low income groups, the subsidies necessary to boost buying power are large and the farmer share of the average consumer dollar is roughly 25 percent. Hence, the net impact of a given dollar of food subsidy on commodity markets is quite small.

The AARC Center believes that more of our agricultural and forestry materials need to be converted into value added products prior to export. Western Europe does a much better job of adding value to

agricultural materials prior to export than we do in the United States. About 30 percent of our agricultural exports are consumer-ready products compared with over 70 percent for most western European countries.

AARC PROGRAM ACTIVITIES

In terms of tools to identify new markets and products, the AARC Center can be of significant help in bridging the gap between research advances and getting a commercial product into the market place. The AARC Center is industry led and market driven. Majority of the AARC Board of Directors, reviewers, and applicants are from the private sector. We have direct links with these people -- some already have products with export potential that are made from agricultural commodities and others are nearing commercialization -- but few of these have experience in accessing and penetrating export markets. Examples of value-added export opportunities produced by AARC Center partners include:

1. Phenix Composites' Newstone made from soybean meal and used newsprint.
2. International Lubricants Inc's teleromized lubricating oils made from vegetable oils;
3. Gridcore's spaceboard made from kenaf or low grade wood;
4. Agrigenetic's and International Fora Techs' lubricating and cosmetic products produced from lesquerella oil;
5. Hobbs Bonded Fibers' oil absorbent from low-grade wool, as well as Environmental Remediation Technology's oil absorbent from cotton lint.

6. Midwest Grain's degradable plastic-like polymer;
7. Aquinas Technology's non-poisonous windshield washer fluid 2made from ethanol produced from corn;
8. Agro-Fibers' "Roll & Grow" seed mats from kenaf for use to quickly establish lawns and gardens;
9. International Poly Chemicals' intermediate chemicals from corn starch;
10. Biotechnology Research & Development's non-toxic biodegradable pesticide carrier from corn starch;
11. Weyerhaesuer Paper's cardboard boxes using grass straw;
12. Kenaf International's pulp and paper products from kenaf;
13. Leahy-Wolfe's biodegradable, nontoxic concrete form release agent made from Canola oil;
14. Natural Fibers' pillows and comforters filled with milkweed floss; and
15. Standboard Molding's furniture parts made from low-grade hardwood trees.

The above represent a few of the 577 applications the AARC Center has received in just over a year. The ideas are intriguing. The entrepreneurship exists to commercialize a host of products. The missing ingredient is adequate support to help share the risk with the private sector to undertake such ventures. We have been able to fund less than 10 percent of the applications. A unique aspect of the AARC program is that private sector partners are required to pay back the government contribution when sales reach a pre-specified level.

PROGRAM LINKAGES

Efforts to promote old and new uses for agricultural products are most likely to succeed if they can be linked to the trade, environmental, rural development, commodity, and research initiatives already underway in USDA. In most of these areas, the link is easy to identify and clearly complementary. For example, new uses can be tied directly to rural development efforts if we are willing to emphasize local value added in our efforts to promote feed stocks and energy from agriculture.

This same complementary link can be forged with commodity concerns interested in expanded markets and diversification opportunities. New use links to the agricultural research program also make sense; improve technology and the bench science underlying it are critical if new and expanded uses are to pass the market test. On a similar note, if we can interest American industry in new and expanded uses for farm products, chances are that we can interest industry abroad. This suggest a natural partnership with agricultural trade interests concern with reinforcing the U.S.'s competitive position and expanding sales abroad.

Without closer links to these other initiatives, the probability of success in promoting new uses would be significantly smaller. It will prove more difficult to generate and sustain policymaker interest and program manager support as well as industry involvement. Competition for limited public funds available for use in agriculture is likely to be fierce and new use efforts could

face indifference or opposition from other agricultural interest unless the complementary nature of new use efforts are clear.

CONCLUDING REMARKS

While some ideas for new uses have been around since the 1930s, there has been no consistent effort to make them commercially viable. When surpluses were high, a big push occurred. When supply was more in line with demand, interest waned. Now, consistent commitment is more evident. For example, in 1991, nontraditional uses (such as sweeteners, ethyl alcohol and industrial starch) of corn equaled corn exports. By the year 2000, industrial uses will consume an estimated 2.4 billion bushels of corn -- a billion bushel increase!

More than 30,000 acres of industrial rapeseed and crambe are grown annually for lubricants, plastics and anti-foam agents. In 10 years, expect to see 300,000 acres of those crops. Biodiesel, degradable starch polymers, adhesives, inks, paints, and paper products from agricultural materials are other potential growth areas.

New technologies and scientific tools such as genetic engineering, continuous-flow fermentation and chemical catalytic processes are opening entirely new markets and uses for raw agricultural products. As new markets develop, farmers and rural America will become less dependent on federal farm program payments and additional demand for renewable based products will more fully utilize our agricultural capacity and infrastructure.

United States
Department of
Agriculture

AARC CENTER

PROGRAM SUMMARY

ALTERNATIVE
AGRICULTURAL
RESEARCH and
COMMERCIALIZATION
CENTER

Making It Happen
Expanding Use Of Industrial Products
from
Agricultural Materials

What Is The AARC Center?

The Alternative Agricultural Research & Commercialization (AARC) Center is a separate entity within the US Department of Agriculture. Policy and program direction is provided by a nine-person Board of Directors--eight of whom are non-federal--representing processing, financial, producer and scientific interests. The mission of the AARC Center is to assist the private sector in closing the gap between research results and commercialization of industrial (non-food, non-feed) products from farm and forestry materials.

Where Is The AARC Center?

The national office of the AARC Center is located in Washington, D.C. In order to make the program more responsive to both potential and successful applicants, the Center's activities are being decentralized into six regional centers; the first two are established in the Upper and Lower Great Plains. The Board envisions four others: Northwest, Southwest, Corn Belt and Southeast.

What Type of Projects are Supported?

Any non-food or non-feed product derived from agricultural or forestry materials is a candidate for AARC support. Examples of recent projects that have gained AARC support include the following:

- production of ethanol from lignocellulosic materials
- production of pulp from waste straw
- kenaf-based newsprint, lawn mats, and paneling
- biodegradable lubricants from crambe and rapeseed oil
- biodiesel production and processing technology
- poly chemicals from corn starch
- biodegradable films and coatings from wheat
- cosmetics and lubricaants from lesquerella
- oil adsorption pads from wool
- molded furniture parts from wood strands
- composites from recycled newspaper and soybeans
- insulation material from milkweed floss
- slow release starch-based bio-pest control

Who May Apply For AARC Support?

Any private individual or firm may apply for assistance through the AARC program. While most of the Center's clients are small firms, non-profits and large businesses have also been successful applicants. Universities and similar institutions may be participants, but the private partner is generally in the lead for commercialization activities.

What Can The AARC Program Do For My Business?

The AARC program can supply financial assistance at the pre-commercialization stage of a project--that point in a project when the costs are the greatest and the ability to obtain lending from traditional sources is the most difficult. At the pre-commercialization stage, a product is expected to have an identified market. However, additional work may remain before the product enters the marketplace, e.g. prototype testing or manufacturing, commercial runs, regulatory clearance or market analysis. The financial assistance is in the form of a repayable cooperative agreement and includes a repayment portion that recognizes the investment risk taken by the AARC Center. Applicants are expected to bring at least a 1:1 match when seeking funding from the AARC program. In the initial round of projects supported by AARC financing, AARC contributions ranged from less than $100,000 to $1 million.

How Are Projects Selected For AARC Support?

Applications undergo evaluation by three outside reviewers and the AARC Center's staff. The evaluation reviews the adequacy of the business plan, the technical feasibility of the proposal, the project's potential to generate jobs in rural America, as well as environmental and conservation aspects. Following a successful review, an application is referred to the AARC Center's Board of Directors for final evaluation. Board members and staff make site visits and in some cases require oral presentations on the overall proposal. The Board makes the final decision as to who receives assistance and in what amount. Proprietary information is protected throughout the review and evaluation process and procedures are in place to avoid conflicts of interest with reviewers or Board members. In addition, the legislation establishing the AARC program specifically

exempts the Center from the provisions of the Freedom of Information Act--offering further protection to applicants.

When May Applications Be Submitted?

Applications may be submitted at any time. At least two review sessions are held each year, with successful applicants being announced approximately three months after the start of the reviews.

Who will own The Rights To The Intellectual Property?

The title to any intellectual property developed under a joint agreement with the AARC Center will remain with the applicant. While federal legislation does require so-called "march-in" rights for the government with regard to any invention made with federal funds, the private sector firm would have to be compensated through a licensing/royalty arrangement, in the unlikely event that such rights were exercised.

How Does A Company Repay The AARC Center's Investment?

Agreements include provisions for repayment by successful projects. The payback provision is what makes the AARC program such a novel and innovative approach for government. With smaller firms, the AARC Center generally establishes an equity position with the company, with the provision that at a later date the Center will sell back the stock. Another approach used by the Center is to arrange a multiple repayment scheme, with a deferred percentage rate included as recognition for the Center's investment risk. The repayment is typically linked to product sales, so that if sales are initially slow, a firm is not strapped for cash in order to meet its obligation to the AARC Center.

How Many Awards Have Been Made? How Many Are Available?

The AARC Center receives an annual appropriation from Congress and operates under a revolving fund. The first agreements were signed in 1993, investing money that

was appropriated during FY92 and FY93. Thus far, 25 projects have received $10 million in AARC financing. (Private sector financing of the projects has totaled about $25 million.) As the current AARC Center investments become profitable and reimburse the Center, the money will be added to the revolving fund to help finance future projects. It is the goal of the Board of Directors to eventually establish a fund of several million dollars. The number of awards is limited only by the money available in the fund at any given time.

Where Do I Get Additional Information?

For further information write or fax your request directly to the national office:

USDA AARC Center
14th & Independence Ave., SW
Cotton Annex - 2nd Floor Mez.
Washington, D.C. 20250-0400
FAX: (202)-401-6068

Revised
September 1993

AARC Center Board Of Directors

Composition of the AARC Board is specified in the 1990 FACT Act, Title XVI, Sub. G. Current Board members include:

1. Martin Andreas, Chair (Senior VP, Archer Daniels Midland), Decatur, IL

2. Jerry Caulder (President, Mycogen Corp), San Diego, CA

3. Oleta Fitzgerald (Executive Assistant to Secretary Espy), Washington, DC

4. John Fujii (Retired Director of Manufacturing Technology, James River Corp.), Camas, WA

5. Philip Gross (President, Novon Products Division of Warner-Lambert Co.), Morris Plains, NJ

6. Ralph Hardy (President, Boyce Thompson Institute), Ithaca, NY

7. Roger Porter (Materials Scientist, University of Massachusetts), Amherst, MA

8. Lee Reeve (Reeve Cattle Co.), Garden City, KS

9. Delwin Schneider (President & CEO, CILCORP Ventures), Peoria, IL

Paul F. O'Connell, Director
Joseph C. Roetheli, Deputy Director
AARC CENTER
Washington, DC 20250-0400

AARC Alternative Agricultural Research & Commercialization Center

Windshield Washer Solvent Turns 'Green'

Even a product as basic and simple to produce as windshield washer solvent can be transformed in ways that offer spin-off benefits ranging from protecting human health to improving the environment and the U.S. economy.

Aquinas Technologies in St. Louis, Missouri, already has changed the washer solvent business by creating a new distribution network. The selling point is that Aquinas packages its traditional methanol solvent in bottles made from recycled plastic and filled by Goodwill Industries, a national not-for-profit organization providing jobs for workers with disabilities.

Now Aquinas is taking a further step to generate both economic and environmental benefits. Working with the farmer-funded National Corn Growers Association (NCGA), Aquinas plans to begin national distribution of washer fluid containing non-toxic ethanol made from corn grown in the U.S. The new product will replace methanol-based solvents that can cause blindness if swallowed-- or can even prove fatal. Methanol is made from petroleum, 50 percent of which is imported. Meeting the nation's 120-million-gallon annual demand for windshield washer solvent would require 24 million bushels of corn.

The Aquinas plan is being supported by the new Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture. As part of its 1993 round of repayable awards to promising new ventures, the AARC Center will provide $400,000 to the NCGA to help launch production of the ethanol-based solvent and to market the new product. Once sales generate revenue, Aquinas will repay the public funds.

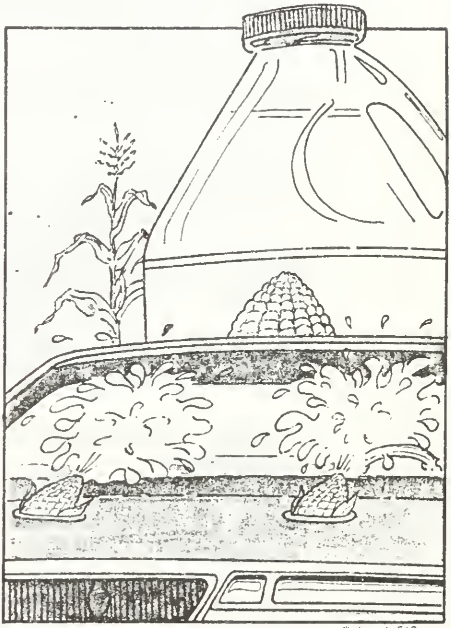


Illustration by Ed Courrier

National Corn Growers Association, MO

Sponsor's Contact:	John R. Campen, (314) 275-9915
Raw Material:	Corn
Product:	Ethanol-Based Windshield Washer Solvent
AARC:	$400,000
Cooperators Contributions (est.):	$945,000

The consortium of Aquinas, the NCGA and Goodwill Industries will invest $945,000 in the new venture. Rapid consumer acceptance is expected, based on the fact that Aquinas is well-established in the windshield washer solvent market today with its current methanol product.

AARC

Alternative Agricultural Research & Commercialization Center

Kansas Wheat to Feed America in a New Way

With 55 billion pounds of petroleum-based plastics produced each year in the United States — and 22 billion pounds discarded each year, filling up the landfills — the public demand for alternatives is escalating.

One answer being pursued by Midwest Grain Products of Atchison, Kansas, is to manufacture a fully biodegradable plastic made not from imported, non-renewable petroleum but from domestically grown wheat. As the world's largest producer of the gluten and starch separated from the wheat kernel, Midwest Grain is committed to developing a new generation of wheat-based products — plastics that are "environmentally friendly" all the way from growing the annually renewable grain to disposing of the biodegradable plastic product.

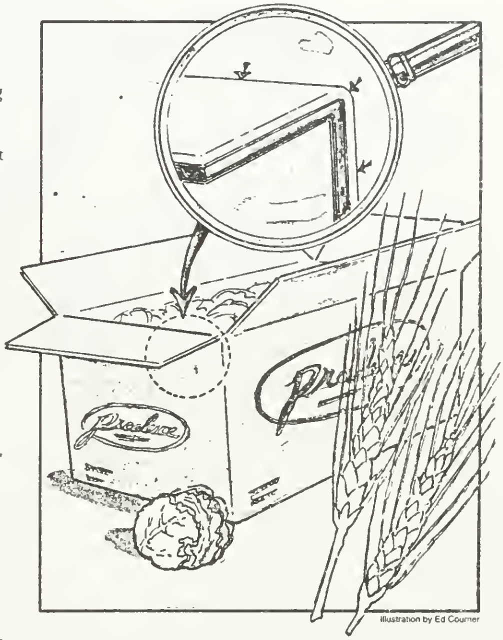


Illustration by Ed Courner

Midwest Grain Products Inc., KS

Sponsor's Contact:	Rangan Chinnaswamy, (913) 367-1480
Raw Material:	Wheat
Product:	Adhesives, Films, Coatings & Food Service
AARC:	$818,000
Cooperators Contributions (est.):	$850,000

In support of the Midwest Grain effort, the Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture, is investing $818,000 to help develop new wheat-based industrial products. Midwest Grain itself will invest $850,000 in the first step, designed to produce a competitively priced biodegradable polymer for use in adhesives, coatings and films. The new polymer would replace petrochemical polymers.

Because wheat will remain a major food crop, industrial uses have tended to be ignored. Even at times of surplus, the feeling has been that it is better to stockpile a food crop than to develop industrial markets for a crop that might be in short supply in the future. Today, however, persistent wheat surpluses and wheat's unique properties have triggered research into new industrial uses.

As one of the world's oldest and best-researched crops, wheat is produced with model efficiency around the world. With new varieties and new, genetically engineered answers to pest problems, wheat yields should continue their steady increase. As a result, there is no doubt that enough wheat will be produced to meet whatever market demand is created by new industrial uses developed by Midwest Grain and other companies.

Lesquerella: Global Rethinking of Renewable Resources

Illustration by EJ Courrier

If all goes according to business plan, expect to see lesquerella — a desert shrub native to the American Southwest — transformed into an important ingredient in everything from high-performance specialty plastics, industrial nylons and lubricants, to high-priced cosmetics.

Dr. Keith Walker, director of development for the Agrigenetics Company of San Diego, California, says of lesquerella's commercial prospects: "The things that we see which bode well for vegetable oils as industrial products are the global rethinking of the role of renewable resources and the interest in so-called 'environmentally friendly products.' These trends mean that a new product may not be economically viable now, but very soon it could become viable due to environmental and political changes."

Agrigenetics is so upbeat about lesquerella's future that it is spearheading a consortium designed to replace the $30 million worth of imported castor oil with domestically produced lesquerella oil as quickly as possible. To support this effort, the Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture, is investing $776,110 to speed development of lesquerella. This investment will be repaid with interest once lesquerella oil production is profitable.

Agrigenetics plans to invest an additional $267,000 and other partners have pledged over $1 million. Previous Agrigenetics research established that lesquerella seed, grown and processed with standard equipment, produces specialty oils containing commercially valuable hydroxy fatty acids. The current project focuses on domesticating wild lesquerella to raise its yield of both seed and high-quality oil.

Lesquerella offers environmental and economic benefits, including new products made from a domestic, renewable resource, and an alternative crop for farmers that requires less water than traditional crops such as cotton.

Agrigenetics L.P., CA

Sponsor's Contact:	Keith Walker, (619) 453-8030
Raw Material:	Lesquerella - New Crop
Product:	Lubricants & Cosmetics
AARC:	$ 776,110
Cooperators Contributions (est.):	$1,267,000

Replacing Petroleum with Renewable Crop Oil

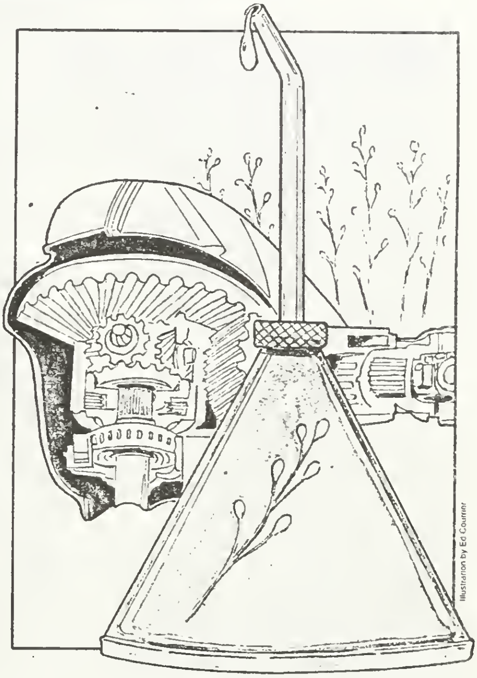


Illustration by Ed Courrier

Watch for it soon in your engine and transmission oils — new, high-performance lubricants routinely made from renewable crop oils rather than from imported petroleum. Once this higher-priced alternative turns into commercial reality for the ordinary motorist, the results should include not only smoother-running engines but environmental benefits ranging from cleaner air and water to more sustainable farming practices.

American industry's switch from depending on non-renewable, imported petroleum to using renewable U.S. crop oils to make everything from lubricants to steel-strength plastics is already happening. This process could be accelerated significantly if a project championed by International Lubricants Inc. of Seattle, Washington, is successful.

"Bio-friendly" crop oils are in use today thanks to environmental regulations creating a small, but promising, market. These higher-cost oils are required in applications such as hydraulic fluids for use in earth-moving equipment operating around dams and other locations where surface- or groundwater could be contaminated by petroleum oils. As environmental concerns grow, more rapidly biodegradable crop oils are expected to be required for many other uses.

To help ensure that competitively priced crop-based oils are available to satisfy increasing market demand, the Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture, is investing $480,000 this year in an International Lubricants project designed to turn rapeseed oil into a major industrial feedstock. International Lubricants itself is investing $230,000 and other partners will invest $260,000 as part of the AARC-supported rapeseed project. The project's goal is to develop efficient procedures for turning rapeseed oil into a low-molecular-weight telomer that would have wide applications as the raw material for manufacturing lubricants and new industrial products such as high-strength nylon 1313.

International Lubricants Inc., WA

Sponsor's Contact:	Frank L. Erickson, (206) 762-5343
Raw Material:	Rapeseed Oil or Crambe Oil - New Crop
Product:	Lubricants
AARC:	$480,000
Cooperators Contributions (est.):	$490,000

AARC

Alternative Agricultural Research & Commercialization Center

Recycled, Renewable 'Environ' from Minnesota

Mixing used newspapers with this country's abundant supply of soybean meal creates a versatile new material for a wide range of uses. At the same time, it promises to create new jobs and economic activity in rural America.

With these economic and environmental benefits in sight, the Alternative Agricultural Research and Commercialization (AARC) Center is providing public funds to support development of the new product, "Environ," made by Phenix Composite Inc. of Mankato, Minnesota. The composite material, created mostly from waste paper and soybean meal, combines the easy-working properties of wood with the appearance and sales-appeal of polished granite.

Environ began with a schoolgirl's sixth-grade science fair project. Her experiment with old newspapers and her mom's kitchen blender wrecked the blender, but she now shares in the patent and owns stock in the company.

Phenix Composite's next step is to move from pilot scale to full production, to fill a promising market in decorative pieces and furniture in a variety of colors. To help make that step, the AARC Center is providing $1 million to supplement $1.5 million in new Phenix Composite investment. So far, Phenix Composite has invested $5.2 million to develop Environ. The AARC Center investment will be repaid out of Environ sales.

To minimize transportation costs, Environ is expected to be produced in a network of small plants located throughout rural America. The first Environ manufacturing facility, to be located in the Mankato area, is expected to employ 60 people. Environ should provide a growing market for the waste paper that represents more than 40 percent of the materials dumped in landfills today. The market for Environ itself is expected to grow rapidly. Initially being introduced for use in furniture and small items, it soon should be available as a structural building material for both interior and exterior uses.

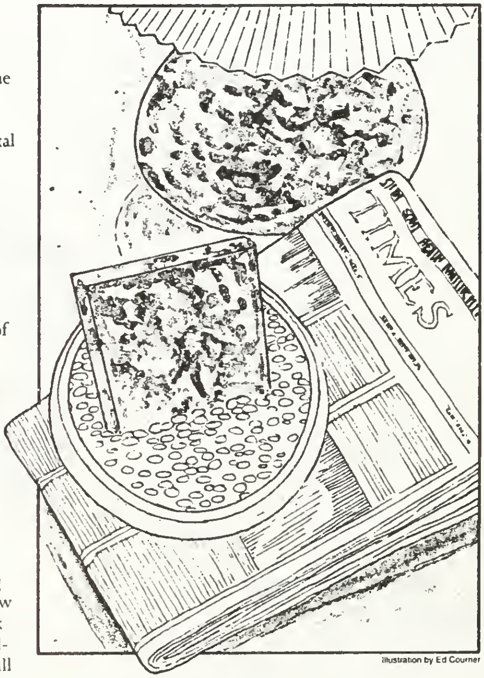


Illustration by Ed Courner

Phenix Composite Incorporated, MN

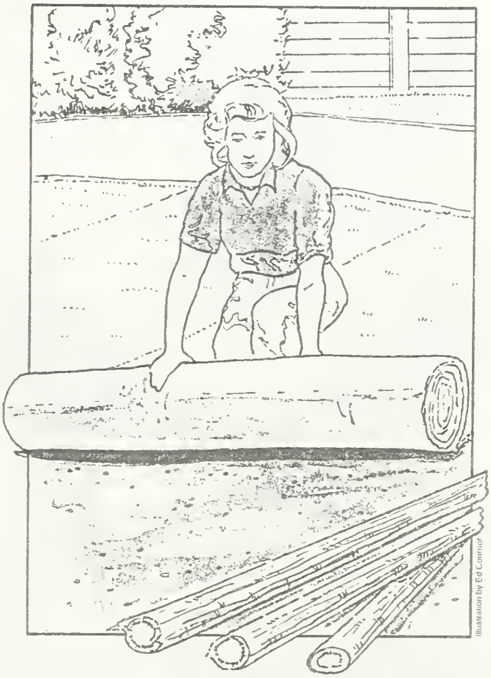
Sponsor's Contact:	Rodney D. Skillman, (507) 387-4848
Raw Material:	Soybean Flour & Recycled Newsprint
Product:	Granite-like Material
AARC:	$1,000,000
Cooperators Contributions (est.):	$1,500,000

Growing Grass — and New Jobs for Rural America

Take 50,000 acres of kenaf (an ancient fiber crop now grown in the southern and western states), add grass seed and ingenuity.

The expected result is 46 new jobs created in a rural community — and the environmental benefits associated with finding new uses for soil-protecting, renewable agricultural products.

The new "Roll and Grow" grass mat developed by Agro-Fibers Inc. of Corcoran, California, offers an economical way to create a new lawn — in some cases saving the consumer 40 percent or more over traditional seeding methods. The mat is entirely biodegradable and helps fertilize the grass seed as it grows. It also reduces the amount of water required to start a lawn.



The combination of job creation and environmental benefits naturally attracted the interest of the new Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture. Typical of the generally small entrepreneurial firms picked for this year's initial awards of $10 million in public funds, Agro-Fibers is in line to receive an $800,000 investment of AARC Center money to complement the $3.1 million invested by Agro-Fibers Inc. In return, the company will be combining new ideas, new technology, and a new commercial crop in ways designed both to generate rural jobs and to improve the environment. In addition, if sales of the new kenaf grass mats develop as rapidly as planned, the taxpayers' money should be fully repaid, with interest, within two to three years.

Agro-Fibers Inc., CA

Sponsor's Contact:	Gordon Fisher, (209) 992-2265
Raw Material:	Kenaf, Wood Waste, Grass Seed
Product:	Grass & Flower Mats
AARC:	$ 800,000
Cooperators Contributions (est.):	$3,100,000

The number of new production plants — and the number of new jobs — will depend on consumer demand. Early interest in the product suggests that the initial plant employing 46 people will be the first of many. The company expects to carve out an estimated $50-million niche in the multibillion-dollar home gardening industry. The greater this niche turns out to be, the greater will be the environmental benefits from turning waste forest fibers and soil-saving kenaf, grown without chemicals, into a high-value, commercial product.

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AARC Alternative Agricultural Research & Commercialization Center

Farmer-Rancher Group Turns Corn into Chemicals

Anything made from a barrel of petroleum, also can be made from a bushel of corn or from farmers' other crops. However, higher production costs have offset the multiple environmental advantages of using renewable, less-polluting crop oils and chemicals in place of those produced from imported, non-renewable petroleum.

To overcome the cost barrier, a group of farmers and ranchers has spent eight years developing patented new technology for turning their corn into high-value industrial chemicals such as propylene glycol, glycerin and ethylene glycol — chemicals that are the feedstocks for such products as polyester resins and fibers, polymers, laundry detergents, pharmaceuticals, cosmetics, synthetic fats and antifreeze.

The group's Redmond, Washington, company, International Polyol Chemicals Inc., has demonstrated its new technology by turning corn starch into industrial chemicals at the pilot-plant level. The company currently processes 5,000 tons of corn starch per year. The next step is to develop a commercial-scale plant designed to be competitive with petrochemical plants by processing 100,000 tons per year.

Company officials explain that achieving commercial production levels will require changes to bring production costs down through a combination of increasing the yield of chemicals per bushel, changing the mix of chemicals produced, developing a less-costly catalyst, and reducing investment costs.

To help International Polyol go commercial, the Alternative Agricultural Research and Commercialization Center, a branch of the U.S. Department of Agriculture, is investing $300,000 this year in support of additional research efforts. The expected payoff for the nation should spread far beyond Washington state. If International Polyol succeeds in making "chemicals from corn" commercially competitive with petrochemicals, the benefits will include cleaner air, cleaner water, reduced oil imports and a new source of income for rural America.

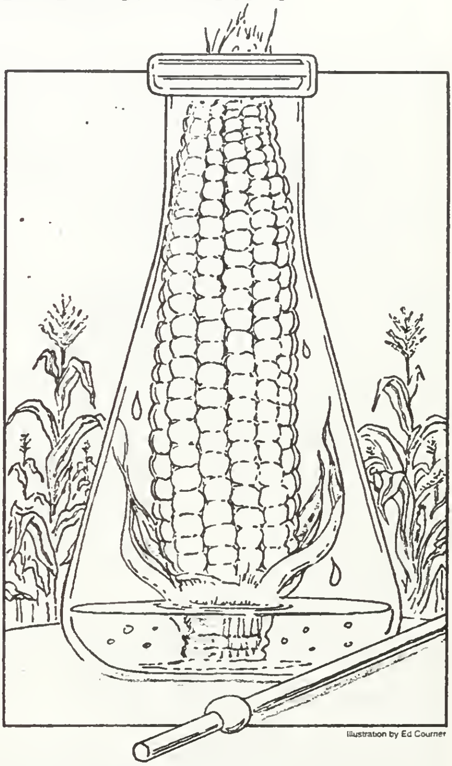

Illustration by Ed Courner

International Polyol Chemicals Inc., WA

Sponsor's Contact:	A. Terry Brix, (206) 861-6565
Raw Material:	Corn
Product:	Ethylene Glycol, Propylene Glycol & Glycerin
AARC:	$300,000
Cooperators Contributions (est.):	$601,000

AARC Alternative Agricultural Research & Commercialization Center

Non-toxic, Biodegradable Pesticide Packaging

Encapsulating pesticides in a non-toxic coating generates many benefits — such as protecting workers who apply the pesticides, protecting the environment, protecting pesticides from deterioration, and reducing the amount of pesticide needed, since it all reaches its intended target.

With such benefits in mind, researchers from the U.S. Department of Agriculture, universities and private industry have been working together to develop efficient encapsulation systems. One of the most promising new technologies has come from the joint efforts of USDA's Agricultural Research Service and the Biotechnology Research and Development Corporation (BRDC), an Illinois company specializing in high-risk agricultural biotechnology research.

A key BRDC goal in the pesticides area is to fine-tune the use of corn starch as an encapsulation agent for both crop and livestock pest-control applications. The major challenge has been the need to dry and grind the starch/pesticide mixture to form granules or powders. Now, new techniques developed jointly by BRDC and the Agricultural Research Service eliminate the drying and grinding steps by creating self-forming granules. The result is an active pesticide — either chemical or biological — entrapped within a starch or flour matrix formed by the granule. The granule protects the active ingredient from deterioration due to handling or storage and provides for controlled release when the pesticide is applied. An additional advantage of the starch-coated product is that it adheres naturally to plant surfaces, making it more target specific and less likely to move into the soil or water when applied to a crop.

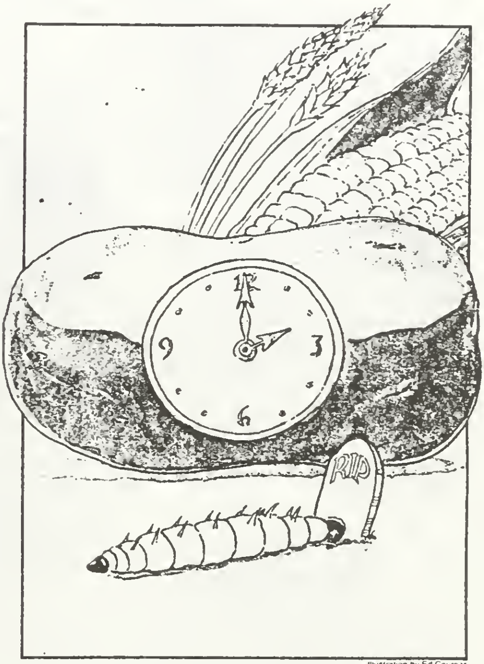

Illustration by Ed Courrier

Biotechnology Research & Development Corp., IL

Sponsor's Contact:	J. Michael Gould, (309) 688-1188
Raw Material:	Corn
Product:	Starch-Encapsulated Pest Control Formulations
AARC:	$500,000
Cooperators Contributions (est.):	$500,000

BRDC and four of its shareholder companies — American Cyanamid, Dow Chemical, ECOGEN and Pitman-Moore — are investing $475,000 in a new program designed to commercialize the encapsulation process. The Alternative Agricultural Research and Commercialization Center, a branch of the U.S. Department of Agriculture, is investing a repayable $500,000 to support this commercialization effort. Projections show that successful commercialization could create a market for 30 million bushels of corn per year.

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AARC Alternative Agricultural Research & Commercialization Center

Rodale Heads Team Testing Compost Benefits

Not including the time donated by commercial farmers such as Bob Keller in Lititz, Pennsylvania, a consortium headed by the non-profit Rodale Institute is investing $553,091 in an effort to calculate the many benefits of on-farm composting — and to discover and deal with any possible problems, such as contamination of soils or water supplies with pesticides or heavy metals.

Along with the Rodale Institute of Kutztown, Pennsylvania, the research team includes the University of Pennsylvania, the Department of Agriculture's Agricultural Research Service, and the Novon Company, a division of the Warner-Lambert Company of New Jersey. To support this research project, another $200,000 is being provided by the Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture. Among the expected payoffs from this investment of public funds:

- an added-value system for using, rather than landfilling, municipal wastes such as sewage sludge, leaves and the biodegradable plastics developed by Novon;
- an additional income source for farmers who may be able to sell the compost they produce, as well as using it on their own fields;
- a reduction in the environmental problems caused by improper disposal of wastes that can pollute soil and water and;
- distribution of information about the benefits of organic compost as a soil-enriching, water-saving alternative to using synthetic fertilizers produced from non-renewable natural gas.

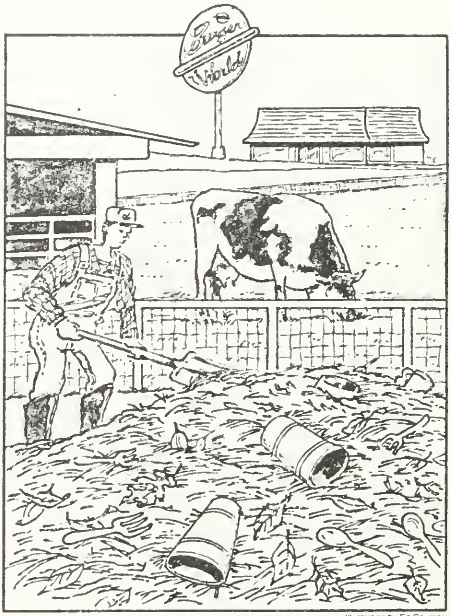

Illustration by Ed Courner

Rodale Institute/Penn State, PA

Sponsor's Contact:	Rhonda Janke, (215) 683-1412
Raw Material:	Corn-Starch Based Restaurant Materials; Farm Animal Manures; Animal Bedding Materials; & Municipally Generated Yard Waste
Product:	Compost
AARC:	$ 200,000
Cooperators Contributions (est.):	$ 553,091

The project is designed to develop improved systems for composting. When properly managed, composting reduces wastes so that it is possible to process and use the compost in ways that help, rather than harm, the environment. Using natural bacterial action to decompose wastes, composting produces carbon dioxide, water vapor, heat and stabilized organic matter.

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Nebraska Farmer Co-op Studies 'Biodiesel' Options

For the 300,000 Midwest farmers and ranchers who own Ag Processing Inc., the world's largest soybean processing co-op, "biodiesel" is the fuel of the future. To make sure that crop-based, renewable, environmentally friendly fuels achieve their promise as quickly as possible, Ag Processing is launching a major study to determine the best technology for producing biofuels.

In support of this farmer-driven research initiative, the Alternative Agricultural Research and Commercialization Center, a branch of the U.S. Department of Agriculture, has committed $36,000 to the search.

Ag Processing's objective is to build on its present strengths in vegetable oil refining by expanding into biodiesel production. The co-op, which operates eight soybean processing plants in Arkansas, Iowa, Minnesota and Missouri, sees major new soybean-oil markets opening up as a result of legislation such as the 1988 Alternative Motor Fuels Act, the 1990 Clean Air Act and the 1992 National Energy Policy Act. Collectively, this legislation represents a congressional determination to reduce U.S. dependence on imported, non-renewable petroleum and increase the use of domestically produced, cleaner-burning, renewable fuels made from crops such as soybeans and other oilseeds.

Ag Processing's initial goal is to identify the best procedures for turning vegetable oils into fuel. To solve the problem of the vegetable oils' high viscosity, which causes a number of engine problems, four basic methods are used today:

- dilution with petroleum diesel fuel or a variety of solvents,
- microemulsification with an alcohol such as methanol or ethanol,
- pyrolysis or "cracking" with heat,
- transesterification with alcohols which results in less viscous fatty esters suitable as fuel and glycerol as a marketable by-product.

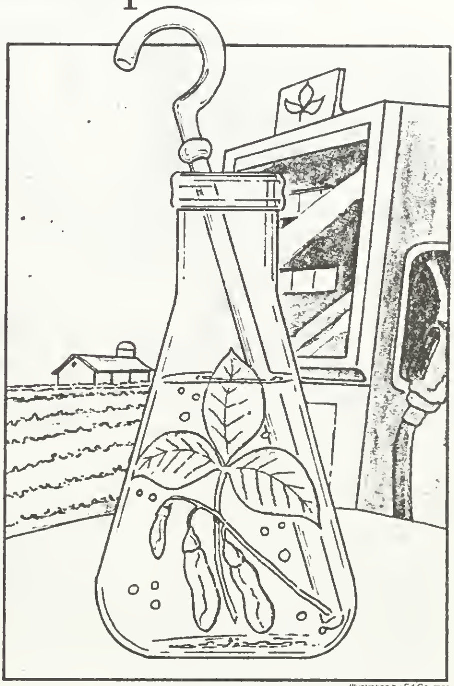

Illustration by Ed Courner

Ag Processing Inc., NE

Sponsor's Contact:	William Lester, (402) 496-7809
Raw Material:	Soybeans
Product:	Study to Help Determine the Best Available Technology for the Production of Biodiesel
AARC:	$36,000
Cooperators Contributions (est.):	$ 9,000

Studies so far indicate that transesterification, as used commercially in Europe, or microemulsification may be the most efficient methods. Higher cost remains the overriding obstacle to increased use of biodiesel, but this barrier is expected to change as both oilseed yields and processing technology improve.

Wool — an Environmental Answer to Oil Spills

Waste wool could turn into the treatment of environmental choice for oil spills and other nasty clean-up problems.

Low-grade wool that currently has no market offers a range of economic and environmental benefits for the clean-up industry:

- as a waste product, it's cheap;
- it is a natural, renewable and fully biodegradable product;
- it's tough enough to be used under the roughest Arctic conditions;
- yet it's gentle enough to swab down oiled birds and mammals; and
- best of all, it naturally absorbs from 10 to 30 times its weight in oil.

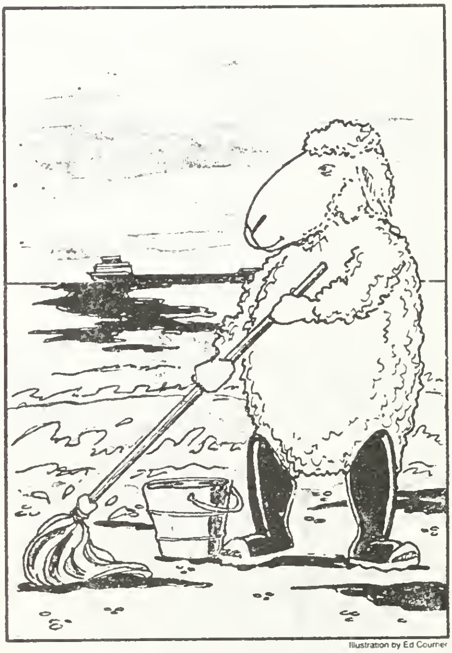

Illustration by Ed Courrier

Hobbs Bonded Fibers, TX

Sponsor's Contact:	Carey Hobbs, (817) 562-5998	(Fax)
Raw Material:	Waste Wool (817) 562-5351	(Tel)
Product:	Booms, Pads, & Socks	
AARC:	$700,000	
Cooperators Contributions (est.):	$716,344	

As a first step in developing a range of alternative uses for wool, five organizations have joined forces to pool their expertise. The members of the new "Wool Environmental Products Consortium" are Hobbs Bonded Fibers of Mexia, Texas; Western Textile Products Co. of Dallas, Texas; SnugFleece International of Pocatello, Idaho; Texas Tech University of Lubbock, Texas; and the American Wool Council, headquartered in Englewood, Colorado.

Together, the consortium members are investing $716,344 in their first project — turning low-grade wool into the traditional booms, pads, socks and other items used by the clean-up industry to deal with spilled and leaked liquids. To support the project, the Alternative Agricultural Research and Commercialization Center, a branch of the U.S. Department of Agriculture, is providing $700,00 as an investment to be repaid from sales of the new products.

The consortium's first step will be to manufacture and test the new wool clean-up materials on a pilot basis. Once floating oil-spill booms and other items are commercially available, the consortium expects rapid industry acceptance based on lower purchase and disposal costs per gallon of oil absorbed and improved performance compared with current clean-up products. As an added benefit, the consortium expects its wool pads to be reusable after squeezing out collected oil — and eventually capable of being broken down into polypeptides and amino acids for use as protein concentrate for animal feeds.

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Pacific Northwest Partnership Weaving Straw into Paper

A partnership linking a major forest-products company with Oregon State University and the Oregon Department of Agriculture could turn waste straw into a tree-saving source for the specialty paper used in making cardboard boxes.

Weyerhaeuser Paper Company has made a major commitment to studying whether straw could be one answer to the problems created by the logging restrictions that have cut the supply and driven up the cost of wood chips. Currently, wood chips provide the fiber for Weyerhaeuser's pulp and paper plants. One major product of these plants is the "linerboard" brown paper used to make the corrugated sheeting used in cardboard boxes.

Weyerhaeuser considers its "straw-into-paper" project a high-risk investment with "potentially serious impacts on the pulping process, paper-making process, box-making, and the box customers." However, Weyerhaeuser's forecast of substantial environmental benefits if the project succeeds led the company to earmark $209,000 to research new technology for processing straw into paper. Oregon State University and the Oregon Department of Agriculture are contributing $150,000 to support this research. A $350,000 investment by the Alternative Agricultural Research and Commercialization Center, a branch of the U.S. Department of Agriculture, will be used to study methods for collecting and storing straw.

Straw provides a lower-quality fiber than wood, so the challenge is to blend the two fibers in a way that will meet the strength and durability requirements for cardboard shipping boxes. If the project turns straw into a major feed stock for cardboard, the economic and environmental payoffs should include:

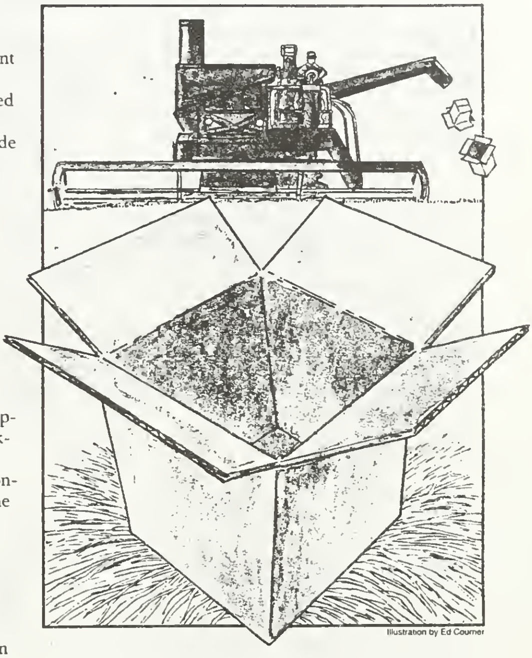

Illustration by Ed Coumer

Weyerhaeuser Paper Company, OR

Sponsor's Contact:	Wayne H. Nay, (503) 741-5700
Raw Material:	Annual Ryegrass Straw
Product:	Linerboard
AARC:	$350,000
Cooperators Contributions (est.):	$359,000

- replacing wood with annually renewable straw in certain paper manufacturing processes,
- helping eliminate the air-pollution problems caused by farmers burning waste straw,
- turning a disposal problem into a new market for farmers' straw.

Kenaf Revival Could Launch Texas Newsprint Industry

One of the world's oldest fiber crops — kenaf — could become a major source for newspaper "newsprint" and for fiber panels. With more than half of the nation's newsprint imported (adding about $3.8 billion to the U.S. trade deficit each year) kenaf newsprint could save both trees and money.

Drawing on more than 20 years of active U.S. research into kenaf production methods and potential markets for this annual, hot-climate crop, Kenaf International of McAllen, Texas, plans to build a $50-million pulp mill designed to produce 30,000 tons of newsprint per year. The first $20-million phase of this project will produce pulp for use in "Gridcore™" fiber panels and for sale to paper mills. Phase two will add equipment to produce newsprint.

After repeated commercial-scale tests, kenaf is acknowledged as a cost-competitive source of newsprint. Compared with wood-pulp paper, research shows kenaf paper as stronger, whiter, less yellowing, capable of sharper photo reproduction and more user-friendly due to better ink adherence (thus requiring less ink and resulting in less ink ruboff on readers' hands). The proposed plant is designed to produce newsprint from a mix of kenaf and recycled newspapers, with the ratio varied depending on the availability of the two components.

Kenaf International General Manager Charles Taylor explains that kenaf newsprint pays economic and environmental dividends because: "A tree-free paper that requires relatively minimal chemical inputs in either field or mill operations reduces both costs and environmental concerns. Energy consumption is 15 to 25 percent lower for kenaf than that required to pulp southern pine. . . and the treated waste water can be used to irrigate nearby fiber crops."

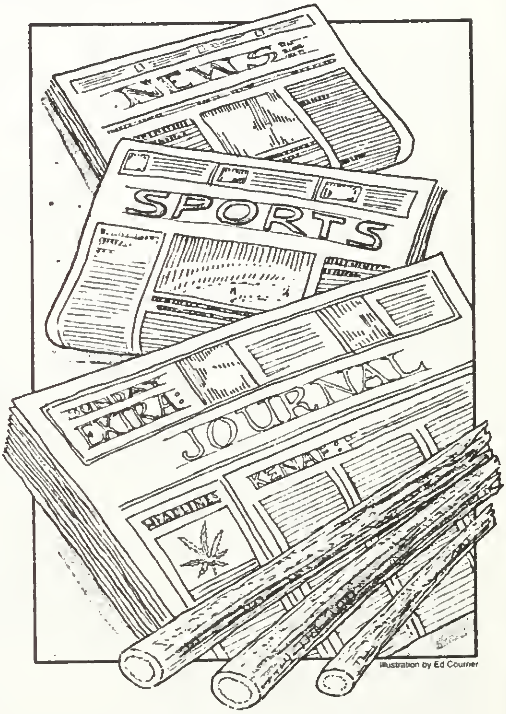

Illustration by Ed Courner

Kenaf International Ltd., TX

Sponsor's Contact:	Charles S. Taylor, (210) 687-2619
Raw Material:	Kenaf
Product:	Newspaper & Specialty Products
AARC:	$100,000
Cooperators Contributions (est.):	$100,000

The Alternative Agricultural Research and Commercialization Center, a branch of the U.S. Department of Agriculture, is investing a repayable $100,000 this year to help Kenaf International prepare materials for a project financing plan for presentation to potential investors and lenders. To supply the proposed newsprint plant, the 25 Texas farmers now growing 3,000 acres of kenaf for research purposes would have a steady market for far larger acreages of kenaf.

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Multi-State Team to Set 'Biodiesel' Standards

With the deadline nearing for compliance with the stringent emissions standards of the 1990 Clean Air Act, "biodiesel" is gaining support as an alternative fuel. But what is biodiesel? That's the question the not-for-profit American Biofuels Association seeks to answer with a $140,000 award from the Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture.

Biofuels can include a wide variety of fuels and fuel blends containing various percentages of petroleum diesel fuel, soybean-derived oil, or oil obtained from other oilseed crops and animal fats. The Biofuels Association seeks to establish standards and clarify terminology.

In the research project made possible by the AARC investment, a standard diesel engine will be tested with various concentrations of soy-based biofuels. Levels of emissions for unburned hydrocarbons, carbon monoxide, particulate matter and oxides of nitrogen will be determined. In addition, engine durability testing will be carried out to determine if new engine lubricants need to be developed for use with biodiesel.

Along with the American Biofuels Association, research partners for this project include the National SoyDiesel Development Board, a trade organization committed to the development of biodiesel fuels based on soybeans; and the Southwest Research Institute, a private, EPA-approved research facility in Texas that will conduct the actual emissions tests with soydiesel in a Detroit Diesel 6V92 engine that is standard for city bus fleets.

Developing new fuels that make it possible for today's standard diesel engines to meet Clean Air Act emissions requirements is considered the quickest and most cost-effective way to generate environmental gains. This approach promises to reduce air pollution in the nation's major cities without the major investment that would be needed to redesign engines. As a bonus, the switch from petroleum-based diesel to an increasing use of renewable biodiesel fuels will reduce the nation's bill for importing non-renewable petroleum.

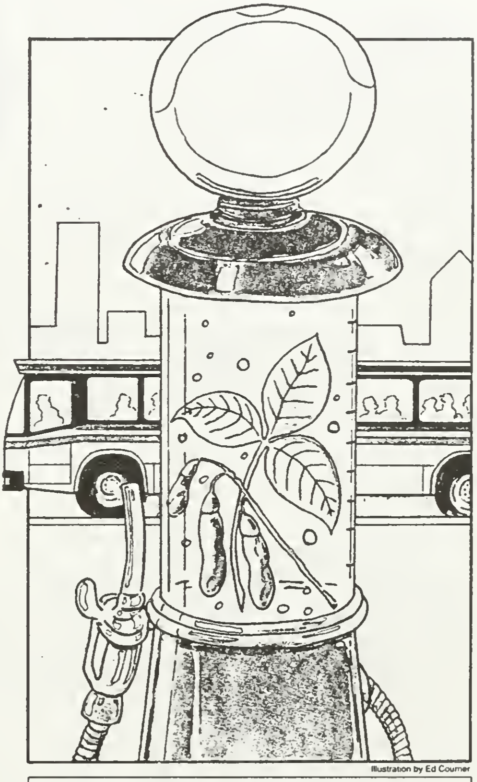

Illustration by Ed Courner

American Biofuels Association
National SoyDiesel Development Board, MO

Sponsor's Contact:	Earle E. Gavett, (202) 554-1025
Raw Material:	Soybeans & Tallow
Product:	Set Standards for Emissions & Engine Performance
AARC:	$140,000
Cooperators Contributions (est.):	$130,000

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AARC **Alternative Agricultural Research & Commercialization Center**

Turning Waste Animal Fats into Clean-Burning Fuel

The fat you don't want in your fast-food hamburgers may be just what's needed to clean up America's cities.

This potential for turning waste animal fats into a clean "biodiesel" fuel for the nation's bus and truck fleets has created a partnership linking public and private research groups. The expected result is a fuel that will enable major urban areas like Los Angeles, Denver, Chicago, Boston and Atlanta to meet the increasingly stringent air-quality standards set by the federal Clean Air Act.

To speed development of a new low-cost alternative fuel, the non-profit Fats and Proteins Research Foundation of Ft. Myers Beach, Florida, has launched a cooperative research effort. Joining the foundation in the drive to turn fats into fuel fast are Stratco, a private engineering company in Kansas; the Agricultural Utilization Research Institute of Minnesota; the National Livestock and Meat Board; and the Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture. To bolster the $33,500 plus in-kind services being provided by the other groups, the AARC Center is investing $10,000 to support the research.

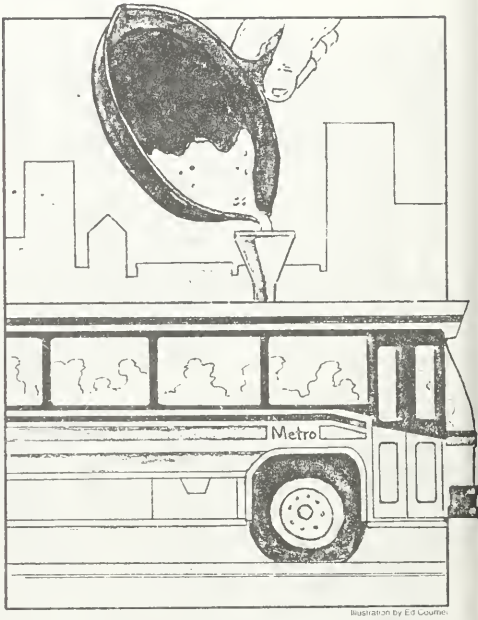

Illustration by Ed Coume

Fats & Proteins Research Foundation Inc., FL

Sponsor's Contact:	Fred D. Bisplinghoff, (813) 463-4744
Raw Material:	Waste Cooking Fats & Oils, Inedible Tallow, Lard, Inedible Greases & Poultry Fat
Product:	Methyl Ester Commercialization
AARC:	$10,000
Cooperators Contributions (est.):	$61,000

The key to the project is Stratco's proprietary technology focused on turning fats and oils into clean-burning methyl ester diesel fuel. The Fats and Proteins Research Foundation, supported by the U.S. rendering industry, is hopeful that Stratco's technology can be used to develop a commercially competitive process for turning rendered animal by-products into a major feedstock for diesel fuel.

Currently "biodiesel" is a blend of soybean oil and conventional petroleum-based diesel fuel. The advantage is that biodiesel gives off significantly lower levels of particulates, sulfur, hydrocarbons and carbon monoxide. An added environmental bonus is that the biodiesel — whether produced from vegetable oils or from inedible animal fats — draws on renewable resources rather than non-renewable petroleum. Another major incentive for the AARC Center to invest in this project is that it holds the promise of creating new jobs both in farming communities and in the rendering industry as oil imports are reduced.

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AARC Alternative Agricultural Research & Commercialization Center

California Firm Commercializing USDA Invention

The Agriculture Department's Forest Products Laboratory dreamed up egg-carton-like "Spaceboard," a strong yet lightweight molded-fiber panel made from waste wood. Now a private licensee plans to turn the renamed "Gridcore™" panels into cheaper, stronger alternatives to standard wood panels for uses ranging from stage sets to building walls.

Gridcore Systems International of Carlsbad, California, has carried out extensive tests with Gridcore™ panels made from kenaf, an ancient, bamboo-like plant now being grown on a small scale in California, Texas and Mississippi.

The initial aim of Gridcore's kenaf-based panels is to evaluate their use for stage sets and exhibition or trade-show displays. Longer-term, Gridcore plans to develop panels for use in the building-materials industry. Several firms have agreed to evaluate the panels for use in all these areas. Currently, Gridcore is testing different raw materials, formulations and manufacturing processes for various construction, arts-and-crafts and sporting-goods applications.

The Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture, is supporting the Gridcore research program with a $50,000 investment. As part of the AARC-supported program, Gridcore will focus research specifically on the use of agricultural and forestry fibers as the raw materials for molded panels. Experimental panels also are being made from mixed waste paper, including old corrugated containers and newspapers, and from recycled plastics.

Gridcore™ panels begin as a watery solution of fibers poured onto a molding table. After water is vacuumed out the bottom, the resulting mat of fiber is then pressed into a sub-panel that is ribbed on one side and smooth on the other. Two sub-panels are glued together at the ribbed sides, resulting in a strong, lightweight, extremely versatile panel up to 4 by 9 feet in size.

Development of a kenaf-based panel interests the AARC Center, since commercialization would create new demand for kenaf — a crop that the USDA has promoted for making newsprint from an annually renewable, non-wood source.

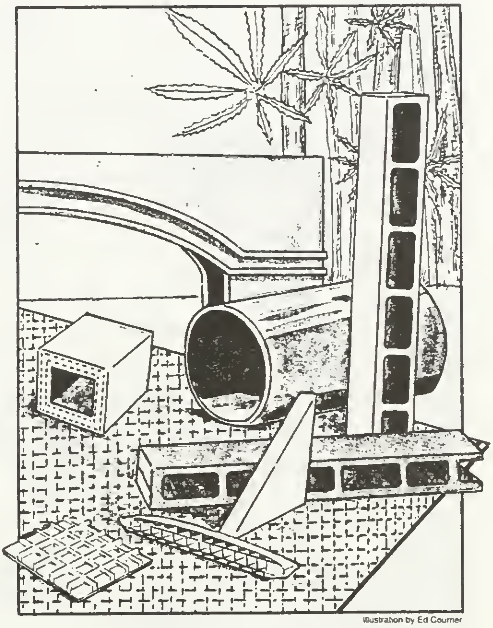

Illustration by Ed Courner

Gridcore Systems International Corporation, CA

Sponsor's Contact:	Tim Newburn, (619) 431-8494
Raw Material:	Kenaf
Product:	Office Dividers, Furniture & Panels for Stage & Theater Sets
AARC:	$50,000
Cooperators Contributions (est.):	$50,000

Maine-Illinois Connection Makes Concrete Cleaner

It all started in Maine, where stringent state and federal regulations on air and water pollution prevented a concrete vault manufacturer from expanding his business. Officials ruled that pouring concrete in the traditional way — using a petroleum-based release agent for the forms — would pose too great a risk to the environment.

This environmental roadblock led an Illinois company to develop a completely non-toxic, biodegradable release agent for use with concrete forms. Within less than a year, the Chicago-based Leahy-Wolf Company researched the manufacturer's requirements (along with state and federal environmental regulations), developed and patented a new release agent, and supplied the new product made from rapeseed oil.

Result: The vault manufacturer won permission to expand his operations, and farmers raising industrial rapeseed found a new market for their crop.

The next step came when Leahy-Wolf, a well-established firm making industrial lubricants, decided to market its new environmentally friendly release agent nationally. The Alternative Agricultural Research and Commercialization Center, a branch of the U.S. Department of Agriculture, is investing $70,000 to support this marketing campaign for Bio-Form® — expecting that the benefits will include reduced pollution as petroleum-based release agents are replaced with the new renewable product; reduced demand for non-renewable, imported petroleum; additional demand for rapeseed oil; and thus new income for farmers and more fields switched from traditional crops to soil-protecting rapeseed.

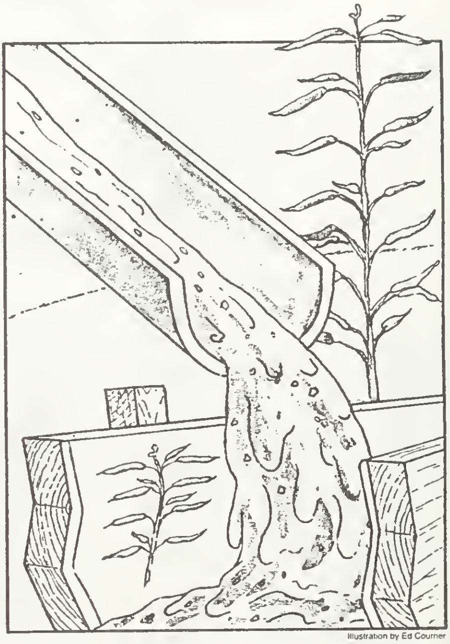

Illustration by Ed Courner

Leahy-Wolf Company, IL

Sponsor's Contact:	Ken Leahy, (708) 455-5700
Raw Material:	Rapeseed Oil
Product:	Biodegradable Concrete-Release Agent
AARC:	$70,000
Cooperators Contributions (est.):	$77,000

Traditional release agents not only are known water contaminants but also present worker-safety risks since they can trigger skin disorders. The rapeseed-based alternative developed by Leahy-Wolf eliminates both problems. Once the word spreads about the availability of the new product, Bio-Form® is expected to become the new industry standard, generating a steady stream of environmental and economic benefits.

Texas Angle on Low-Cost Ethanol Production

As demand increases for clean-burning oxygenated fuels due to federal Clean Air Act requirements, the ethanol industry is back in the spotlight. Right at the center of the spotlight sits AFEX Corporation of Brenham, Texas, a small company that has developed new technology to make ethanol from "lignocellulosic biomass material" — meaning such cheap and widely available feedstocks as hay, corn stalks and wood.

Over the past five years, AFEX has researched the new technology at the lab level and has tested various commercially available equipment components in preparation for commercial-scale operations. It has joined forces with Michigan Biotechnology Institute (MBI) to demonstrate AFEX's biomass conversion process. AFEX and MBI forecast that the new process will cut the cost of ethanol production sharply, compared to present production methods that use corn as the feedstock for 95 percent of the one billion gallons of ethanol produced each year in the United States.

AFEX/MBI forecasts also show that converting high-volume, low-value crop residues into ethanol will result in production facilities being located in crop-growing rural areas, creating both a new source of jobs and additional income for farmers. To help make this outcome more likely, the Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture, is investing $250,000 in AFEX's biomass-to-ethanol development efforts.

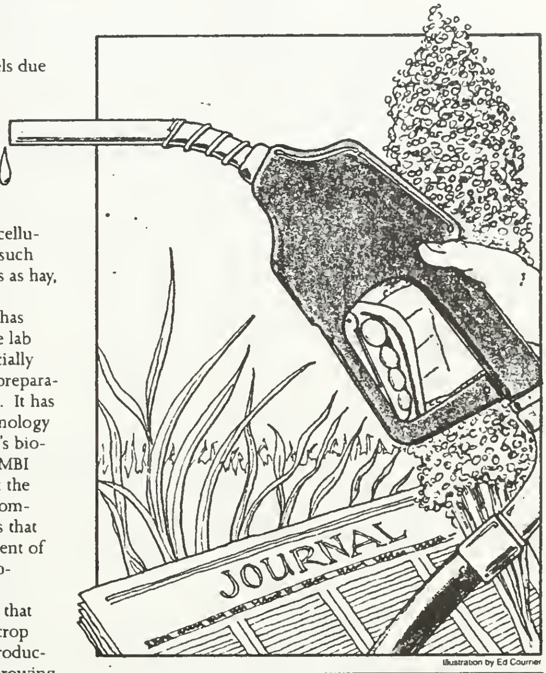

Illustration by Ed Courrier

AFEX Corporation, TX	
Sponsor's Contact:	Earnest Stuart, (512) 502-9080
Raw Material:	Alfalfa Hay, Costal Bermuda, Straw & Manure
Product:	Fuel Ethanol
AARC:	$250,000
Cooperators Contributions (est.):	$406,000

The repayable AARC investment will be used for detailed studies of ways to achieve commercial production levels most efficiently. The AARC investment will supplement $406,000 that AFEX and other parties will invest in the project.

Success with low-cost biomass-to-ethanol production should result in greatly expanded ethanol use — and reduced imports of non-renewable petroleum. Additional benefits will flow directly to rural America if the AFEX process turns into commercial reality: Using biomass to produce ethanol would provide farmers with new markets for perennial, soil-conserving crops grown on marginal land.

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Milkweed Could Spin Profits for Nebraska Farmers

Herb Knudsen, President of Natural Fibers Corporation, isn't the first to try to turn the troublesome "milkweed" into a commercial crop. Interest in milkweed floss as an alternative to cotton dates back to at least 1635; 200 years later the French produced silk-like fabrics from wild milkweed fibers; and in World War II, U.S. sailors went to sea with milkweed-filled life jackets.

Today, Nebraska farmers are growing milkweed on 160 acres to provide enough floss for Knudsen's company to fill "Ogallala Down" pillows and comforters with the super-soft and fluffy white non-allergenic material.

Growing milkweed presents more problems, however, than just neighboring farmers' complaints that the weed might spread. Milkweed's biggest problem is that it is easy prey for pests and diseases. So yields remain too low and uncertain to justify full-scale commercial production. Commercial production would offer many advantages, such as eliminating annual planting since milkweed is a perennial and reducing both fertilizer and irrigation requirements compared to raising corn on the same Nebraska fields where milkweed grows best.

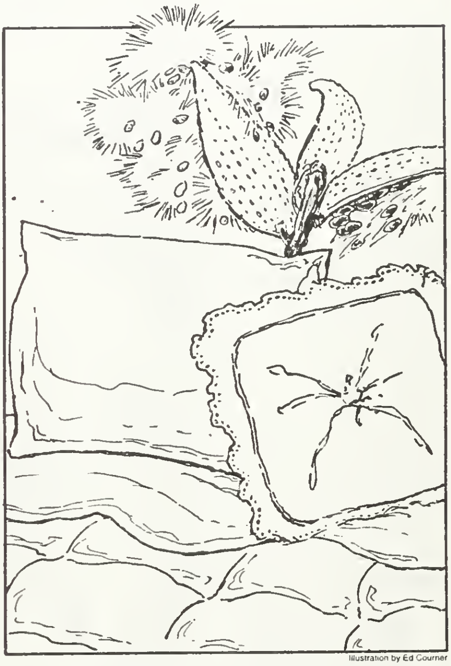

Illustration by Ed Courner

Natural Fibers Corporation, NE

Sponsor's Contact:	Herbert D. Knudsen, (308) 284-8403
Raw Material:	Milkweed - New Crop
Product:	Comforters & Pillows
AARC:	$ 150,000
Cooperators Contributions (est.):	$1,050,000

Milkweed's promise has sparked a consortium effort to overcome the hurdles. A group including the University of Nebraska, North Coast Ventures, Milkweed Growers, and various individuals is contributing $1,050,000 to supplement the $4.2 million in Natural Fibers Corporation assets. The Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture, is investing $150,000 in public funds to support the group's program of agronomic research designed to raise milkweed yields to commercially viable levels.

Once yields are up enough to make milkweed an alternative to raising corn, researchers conclude that the down-comforter market alone could create demand for milkweed production from more than 10,000 acres within the next 10 years.

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AARC Alternative Agricultural Research & Commercialization Center

Texas Plant to Test Ethanol Breakthrough

Deep in the heart of Texas oil country, there's a project that could sharply reduce the need for oil while creating thousands of new jobs throughout rural America. If California-based Arkenol Inc. is right, its prototype plant in Texas will convert a wide variety of woody materials such as perennial grasses, plant stalks and waste paper into a low-cost, renewable source for ethanol.

To prove that its new technology works on a commercial scale, Arkenol is committing $44 million to modernize a mothballed ethanol plant in Ft. Worth, Texas. The refit will bring the plant's grain-to-ethanol processing up to today's standards, and add the equipment needed to convert woody "biomass" to ethanol. Of the $44 million, $7 million represents the estimated costs to commercially demonstrate the proprietary technology to convert switchgrass, grain sorghum stalks and other lignocellulosic material to ethanol.

The project's prospects for creating rural employment and a less-polluting, crop-derived alternative to gasoline naturally attracted the interest of the Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture. To supplement Arkenol's own $7 million commitment to "biomass-to-ethanol," the AARC Center is investing $1 million that will be repaid out of Arkenol's future profits.

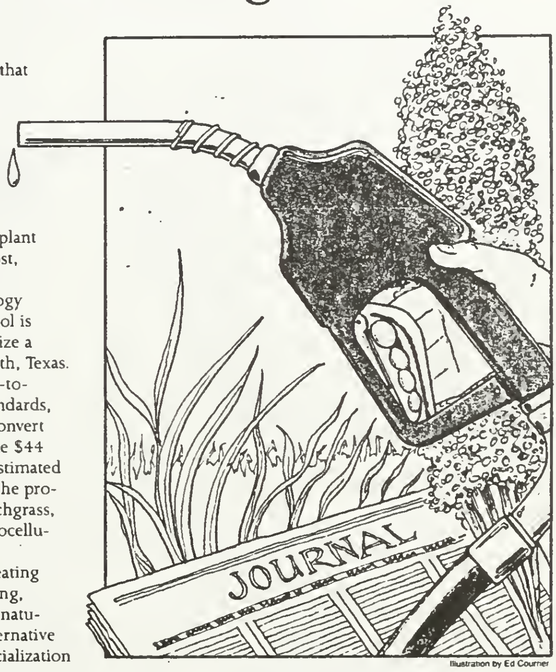

Illustration by Ed Courrier

ARKENOL Inc., CA

Sponsor's Contact:	Mark Carver, (714) 588-3767
Raw Material:	Switchgrass or Grain Sorghum
Product:	Fuel Ethanol
AARC:	$1,000,000
Cooperators Contributions (est.):	$7,000,000

Ethanol already has become an important octane-boosting, emissions-reducing gasoline additive. Currently, corn is the predominant feedstock for ethanol production. Since the nation's need for ethanol is expected to increase steadily to comply with the strict emissions standards set by the 1990 Clean Air Act, research has focused on developing a range of alternative sources for ethanol production. Biomass converted with the Arkenol process (using acid to convert cellulose into sugars that are then fermented and distilled to produce ethanol) could play an important part in meeting the need for increased ethanol production while at the same time putting marginal croplands to productive use.

AARC Alternative Agricultural Research & Commercialization Center

Florida Farm Wastes Could Fill Your Tank

The marvels of genetic engineering applied to problem piles of agricultural waste materials could create an economical new source of ethanol.

BioEnergy International of Gainesville, Florida, a subsidiary of Quadrex Corporation, already has patented its own process using genetically engineered bacteria to produce ethanol from woody plant materials. The next step is to develop a commercially viable system specifically designed to produce high-quality fuel ethanol from mixed waste paper and agricultural materials, including corn stover (the dry stalks and leaves left after the corn is harvested). BioEnergy's conversion technology uses a diluted acid hydrolysis pretreatment, followed by enzymatic hydrolysis to produce ethanol.

BioEnergy plans to ultimately invest $35 million in this "biomass-to-ethanol" project to process waste paper and corn stalks to ethanol. The project is receiving an additional $625,000 in outside investment, including $100,000 being contributed from the revolving fund of the Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture.

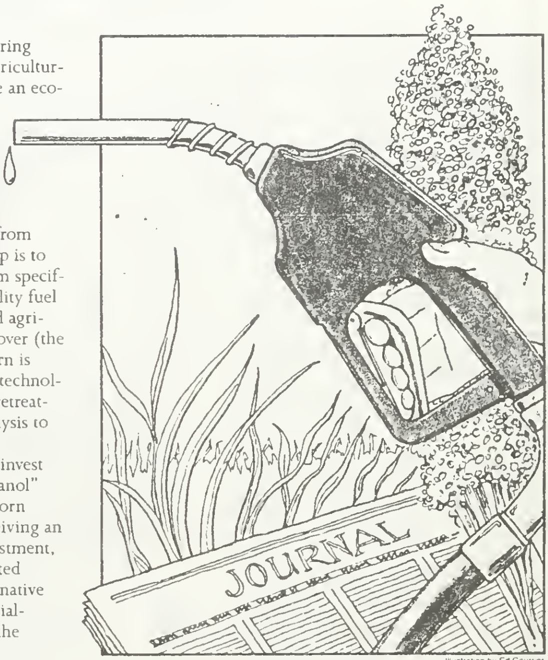

Illustration by Ed Courrier

BioEnergy International L.C., FL

Sponsor's Contact:	John F. Gerber, (904) 378-9711
Raw Material:	Biomass - Agricultural Waste Material - & Mixed Waste Paper
Product:	Fuel Ethanol
AARC:	$100,000
Cooperators Contributions (est.):	$150,000

The repayable AARC Center investment is earmarked for testing and validating various aspects of the use of feedstocks combining newsprint and corn stover. Part of the AARC funded work will examine the fermentation of sugars from these combined feedstocks. The technical challenge is converting woody materials into sugars in a cost-effective way. The subsequent procedures for converting the sugars to ethanol are part of a well-established process.

The company proposes to enter the current 1-billion-gallon-per-year U.S. market for ethanol. This market is expected to expand steadily, due to the pollution-reduction requirements of the Clean Air Act. If all goes according to plan, the first Florida plant will be operating within 4 years and will provide 63 full-time jobs. Each plant would utilize the waste materials from 50,000 acres of corn or from similar acreages of wheat, straw or vegetable crops. BioEnergy forecasts show that the new technology could produce 30 to 50 billion gallons of ethanol per year from agricultural materials that are considered wastes today. BioEnergy also will sell the carbon dioxide generated as a by-product.

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Forest 'Trash' to Make Fine Furniture

Creating high-value products from low-quality or waste materials and creating jobs in depressed rural areas: These two goals combined to produce the new "molded strandwood" technology developed by the Michigan Technological University's Institute of Wood Research.

Today, Strandwood Molding Inc. of Lake Linden, Michigan, is ready to commercialize the new technology by turning lumber residues and poor-quality or small-diameter logs into precisely shaped furniture parts. Strandwood's plan is to make use of readily available labor and lumber in Michigan's northwestern Upper Peninsula to create a profitable, new industry — and a model for what other rural areas could accomplish with available resources around the country and around the world.

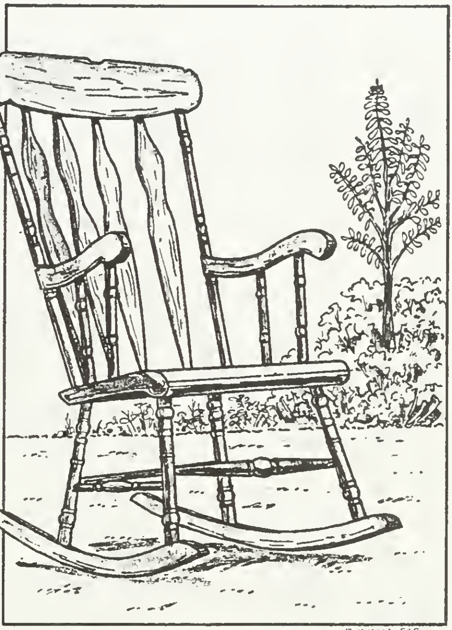

Illustration by Ed Courner

Strandwood Molding Inc., MI	
Sponsor's Contact:	Bruce A. Haataja, (906) 487-9768
Raw Material:	Wood Strands Flaked from Pulpwood Grade Timber
Product:	Molded Strandwood Furniture Parts
AARC:	$ 315,000
Cooperators Contributions (est.):	$2,155,770

Strandwood itself plans to invest $2 million in commercializing the new technology. Along with $155,770 raised from other sources, the Alternative Agricultural Research and Commercialization (AARC) Center, a branch of the U.S. Department of Agriculture, plans to support the Strandwood project with a $300,000 investment. The repayable AARC investment is intended to support the development of small-scale production equipment for use in manufacturing strandwood parts.

One key to the potential for molded strandwood is that the new technology can turn low-quality wood into high-strength, complexly curved furniture parts that eliminate some of the multiple parts, joints and fasteners which both add to the cost of furniture making and create weak points in the furniture. This new "engineered" wood product takes advantage of low-cost, readily available materials to create finished products that offer superior consistency compared to equivalent parts made from solid wood, plywood or plastic.

A second key is that potential markets for compression-molded strandwood stretch far beyond the furniture industry. Offering the environmental advantage of easing pressure on the nation's forests, strandwood could become a low-cost, high-strength alternative to ordinary lumber in products such as shipping pallets, concrete forms, flooring and nestable containers.

Estimated Impacts of 1993 Projects Being Supported By the Alternative Agricultural Research and Commercialization (AARC) Center

Projects	Job Creation			Materials Utilization	Environmental	Value Added
	Initially	After 4 Yrs.	Long-Term			
Ethanol & Other Chemicals from Lignocellulosic Materials	47	100	Several Thousand	Several million acres of marginal land in grass & trees potentially	Protect marginal lands	10X raw material costs
Ethanol & Other Chemicals from Lignocellulosic Materials	1	15	Several Thousand	Crop residue and perennial grass	Protect marginal lands	10X raw material costs
Waste Straw to Pulp	210	455	1,820	300,000 acres of straw for first plant	Elimination of open burning	Several times raw material costs
Kenaf/Recycled Fibers Newsprint	108	130	180	3,000 acres of kenaf; recycled newspapers	Recycling of newspapers	10-15X raw materials costs
Molded Furniture Parts	25	63	71	Wood strands flaked from pulp wood grade timber	Improved forest management; improved wildlife habitat	20X raw material costs
Milkweed Floss for Insulation	3	20	1,500	New crop with potential in Great Plains	Perennial with low water and nutrient needs	10X raw material costs
Wool as Oil Absorbent	12	20	30	Low-Grade Wool	Absorbent for oil	10X raw material costs
"Spaceboard" Panels	5	20	100	Kenaf, wood	Biodiversity	20X raw material costs
"Environ" (New Stone) from Soybeans and Waste Paper	64	298	5,600	280,000 bushels of soybeans	Recycling of waste paper	10 - 20X raw material costs
On-Farm Compost	7	200	4,000	Animal manure; animal bedding; yard waste; corn starch-based waste	Improved soil quality; improved groundwater quality	2 - 20X raw material costs

Projects	Job Creation			Materials Utilization	Environmental	Value Added
	Initially	After 4 Yrs.	Long-Term			
Films and Coatings from Wheat	5	5	20	30 million lbs wheat gluten; 80 million lbs wheat starch	Biodegradable products	2X raw material costs
Starch-Encapsulated Pesticides	12	40	60	200,000 acres of corn	Biodegradable product; lower pesticide rates	10X raw material costs
Biomass Conversion of Sugars to Ethanol	3	120	Several Thousand	Perennial hay; agricultural waste	Recycling of waste products	10X raw material costs
Windshield Washer Solvent from Ethanol	7	28	156	24 million bushels of corn annually	Safer and biodegradable product	2 - 3X material costs
Lawn Mats from Kenaf	46	56	112	50,000 acres of kenaf	New crops and reduced demand for trees	3X raw material cost
Biodiesel Research	---	---	---	Various blends of biodiesel derived from plant and animal sources	Establish engine standards for emissions and performance using biodiesel	---
Upgrade Seed Oil Based Lubricants	13	26	52	120,000 acres of crambe/rapeseed	Break down in marine or forest environment; new crop	3 - 5X material cost
Best Technology for Biodiesel	---	---	---	Vegetable Oils	Reduced air pollution	[Study of various production technologies]
Specialty Lubricants & Cosmetics from Lesquerella	5	15	300	100,000 acres of Lesquerella	New crop; biodegradable products	2 - 3X seed value
Concrete Release Agent	3	3	3	Rapeseed	Biodegradable product	2X raw material costs
Poly Chemicals from Corn Starch	14	49	400	227,000 acres of corn	Replace synthetic products	2X times raw material costs
Biodiesel from Animal By-Products	29	72	220	Waste cooking fats/oils; tallow; lard; poultry fat	Reduced vehicle emissions	1.5X raw material costs

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Testimony

on behalf of the

U.S. Meat Export Federation, Inc.

regarding

The Mission of the Foreign Agricultural Service

before the

Subcommittee on Foreign Agriculture and Hunger

and the

Subcommittee on Information, Justice, Transportation and Agriculture

submitted by

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November 16, 1993

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THE U.S. MEAT EXPORT FEDERATION WOULD LIKE TO EXPRESS ITS APPRECIATION TO THE SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER AND THE SUBCOMMITTEE ON INFORMATION, JUSTICE, TRANSPORTATION AND AGRICULTURE, COMMITTEE ON GOVERNMENT OPERATION FOR THE OPPORTUNITY TO EXPRESS OUR VIEWS ON THE FUTURE PARTNERSHIP OF U.S. AGRICULTURE AND THE FOREIGN AGRICULTURAL SERVICE (FAS) IN EXPANDING FUTURE U.S. AGRICULTURAL EXPORTS.

THE U.S. RED MEAT INDUSTRY AND THE FAS HAVE ENJOYED A PRODUCTIVE AND FRUITFUL PARTNERSHIP IN EXPANDING FOREIGN MARKETS FOR RED MEATS OVER THE PAST DECADES, AND THE PERFORMANCE OF RED MEAT EXPORTS IN RECENT YEARS BEARS THIS OUT. TOTAL RED MEAT EXPORTS WORTH $740 MILLION IN 1986 HAVE EXHIBITED EXPLOSIVE GROWTH AND WILL EXCEED $3 BILLION THIS YEAR. USMEF'S LONG-RANGE PLAN PREDICTS THAT RED MEAT EXPORTS CAN REACH $8 BILLION (1993 DOLLARS) BY 2001 IF THE U.S CAN MAINTAIN ITS MOMENTUM. SIMPLY STATED, RED MEATS HAVE BEEN ONE OF THE FASTEST GROWING AGRICULTURAL EXPORT CATEGORIES OVER THE LAST DECADE. PROSPECTS FOR FURTHER GROWTH ARE BRIGHT AS TRADE BARRIERS DECLINE, WORLD POPULATION INCREASES, AND ECONOMIC

PROSPERITY--BASED ON FREE MARKET POLICIES--EXPANDS TO MOST OF THE WORLD'S NATIONS.

THE INDUSTRY/GOVERNMENT PARTNERSHIP OF THE PAST IS REPLETE WITH SUCCESS STORIES OF EFFECTIVE COOPERATION. HOWEVER, THE CHALLENGES OF THE FUTURE ARE SUCH THAT A THOROUGH EVALUATION AND REFORM OF THESE PARTNERSHIPS MUST BE UNDERTAKEN IN ORDER TO MAINTAIN THE MOMENTUM OF OUR PROGRESS IN AGRICULTURAL EXPORTS.

I WOULD LIKE TO OFFER A VISION OF WHAT THE GLOBAL MARKETPLACE MAY RESEMBLE AS THE MILLENNIUM TURNS AND DISCUSS THESE SCENARIOS IN CONTEXT TO THE RELATIONSHIP THAT THE INDUSTRY AND GOVERNMENT MUST HAVE IN ORDER TO CAPITALIZE ON THE CHANGING, EVOLVING AGRICULTURAL MARKETPLACE.

TRADE ISSUES WILL BE SUBSUMED BY COMPETITIVE ISSUES

NAFTA, GATT, AND A HOST OF BILATERAL AGREEMENTS HAVE (AND WILL HAVE) A CUMULATIVE IMPACT OF LOWERING TRADE BARRIERS AND INCREASING ACCESS TO FOREIGN MARKETS. JAPAN IS PERHAPS THE BEST EXAMPLE WHERE THE PRIORITY OF EXPORT LED ECONOMIC GROWTH

POLICIES HAS SLOWLY OVERRIDDEN THE PROTECTIONIST SENTIMENT OF AN INEFFICIENT AGRICULTURAL SECTOR AND RESULTED IN THE LOWERING OF TRADE BARRIERS. PRESSURE FROM ITS TRADING PARTNERS--MOST IMPORTANTLY THE U.S. GOVERNMENT AND USMEF--ACTED AS A CATALYST ON JAPANESE POLICY-MAKERS TO UNDERTAKE THE DIFFICULT POLITICAL STEPS OF OPENING THEIR DOMESTIC FARM INDUSTRY TO FOREIGN COMPETITION.

IN JUST THE RED MEAT ARENA ALONE, SIMILAR MARKET OPENING EFFORTS HAVE BEEN UNDERTAKEN IN PARTNERSHIP BETWEEN THE U.S. MEAT INDUSTRY AND THE U.S. GOVERNMENT IN KOREA, THE EUROPEAN COMMUNITY, AND SEVERAL OTHER MARKETS. GATT AND NAFTA PROMISE TO CONTINUE THE PROCESS OF LOWERING TRADE BARRIERS IN AGRICULTURE AND INSTITUTIONALIZE RULES FOR FREE AND FAIR TRADE.

IN THIS PROCESS, THE U.S. RED MEAT INDUSTRY AND THE U.S. GOVERNMENT, PRIMARILY USTR AND FAS, HAVE WORKED TOGETHER TO ANALYZE TRADE BARRIERS AND DEFINE NEGOTIATING POSITIONS WHICH WOULD ENSURE ACHIEVING MEANINGFUL ACCESS. EVEN UNDER GATT AND NAFTA, THE INDUSTRY/GOVERNMENT PARTNERSHIP HAS WORKED EFFECTIVELY TO ANALYZE MINUTE DETAILS OF THE AGREEMENTS AND ASSESS TRADE IMPACT.

UNFORTUNATELY, THE U.S. HAS A REPUTATION FOR ITS STRENGTH WHEN IT COMES TO OPENING MARKETS BUT WEAKNESS IN MARKETING FOLLOW-UP. THE BENEFIT OF TRADE AGREEMENTS SHOULD BE MEASURED BY THE BLACK AND WHITE OF THE "BOTTOM LINE" (I.E., SALES), AND SIMPLY PUT, SALES IS A FUNCTION OF THE DEGREE TO WHICH THE U.S. CAN COMPETE IN AN OPEN MARKET. SADLY, OUR COMPETITORS HAVE THE EDGE ON US WHEN IT COMES TO AGGRESSIVE MARKETING PROGRAMS.

AT LEAST IN THE RED MEAT INDUSTRY, THE U.S. HAS A COMPETITIVE HANDICAP IN THE GLOBAL MARKETPLACE. ACCORDING TO OUR RESEARCH, ALL OUR MAJOR COMPETITORS OUTSPEND US IN TERMS OF THE RATIO OF MARKET DEVELOPMENT SPENDING TO THE VALUE OF THEIR EXPORTS. TAKE THE EUROPEAN COMMUNITY FOR EXAMPLE; EVEN AFTER GATT IS FULLY IMPLEMENTED BY 2000, EUROPE CAN STILL DIRECTLY SUBSIDIZE MEAT EXPORTS TO THE TUNE OF ALMOST $1.5 BILLION PER YEAR. IN THE U.S., THE RED MEAT INDUSTRY CAN EXPECT LESS THAN $8 MILLION IN GOVERNMENT RESOURCES IN 1994 FOR EXPORT MARKET DEVELOPMENT. DESPITE WHAT SOME MAY VIEW AS AN AGGRESSIVE INTERNATIONAL MARKETING PROGRAM, THE U.S. RED MEAT INDUSTRY AND THE U.S. GOVERNMENT STILL COLLECTIVELY SPEND LESS THAN 1 PERCENT OF ITS TOTAL INTERNATIONAL SALES ON FOREIGN PROMOTION.

THIS PERCENTAGE IS DECLINING AS THE EXPORT COMMITMENT BY THE GOVERNMENT DECLINES.

INCREASING U.S. COMPETITIVENESS WILL REQUIRE LONG-TERM STRATEGIC PLANNING AND A MORE EFFECTIVE GOVERNMENT/INDUSTRY PARTNERSHIP

COMPETING IN THE INTERNATIONAL MARKETPLACE WILL BE THE PRIMARY CHALLENGE OF THE REMAINDER OF THIS DECADE AND BEYOND. BECAUSE RESOURCES ARE DECLINING, THE NATURE AND EFFECTIVENESS OF THE INDUSTRY/GOVERNMENT PARTNERSHIP IS CRITICAL IF THE U.S. WANTS TO HAVE EVEN A FIGHTING CHANCE IN THE INTERNATIONAL MARKETPLACE.

THE IMPORTANCE OF EXPORTS TO THE U.S. RED MEAT INDUSTRY CANNOT BE OVERSTATED. FACED WITH YEAR ON YEAR DECLINES IN CONSUMPTION, U.S. BEEF, PORK, AND LAMB PRODUCERS ARE VIEWING FOREIGN MARKETS NOT AS RESIDUAL CUSTOMERS BUT AS THE PRIMARY GROWTH SECTOR OF TOTAL RED MEAT DEMAND. THE IMPLICATIONS OF THIS EXPORT GROWTH ON OUR OWN ECONOMY ARE ENORMOUS. FOR EXAMPLE, THE U.S. PORK INDUSTRY EMPLOYS 765,000 PEOPLE--MORE THAN THE TOTAL PAYROLL OF FORD AND IBM COMBINED.

REGRETTABLY, THE BOND BETWEEN U.S. GOVERNMENT AND INDUSTRY IN THE EXPORT ARENA SEEMS TO BE WEAKENING. EVER-FEARFUL OF GAO CRITICISM, FAS SEEMS TO BE PARALYZED INTO INACTION AT JUST THE TIME A MORE AGGRESSIVE AND FLEXIBLE INTERNATIONAL APPROACH IS MOST WARRANTED. THE EXEMPLARY PARTNERING THAT CHARACTERIZED THE RELATIONSHIP BETWEEN GOVERNMENT AND AGRICULTURAL INDUSTRIES UP UNTIL SEVERAL YEARS AGO SEEMS TO BE UNRAVELLING AS REGULATORY ISSUES COME TO DOMINATE MARKETING AND COMPETITIVE ISSUES. RATHER THAN REFORM AND DEFEND THE LAST SIGNIFICANT MARKETING INITIATIVE AT ITS DISPOSAL--THE MODESTLY FUNDED MPP PROGRAM--USDA/FAS SEEKS TO AVOID CONFRONTATION BY ADDING NEW REGULATIONS WHICH PROMISE TO MINIMIZE ITS EFFECTIVENESS.

MEETING THE COMPETITIVE CHALLENGE OF THE FUTURE WILL REQUIRE FUNDAMENTAL REORIENTATION OF CURRENT FAS POLICIES, PROGRAMS, AND ORGANIZATION. OUR OBSERVATIONS ABOUT CURRENT FAS SHORTCOMINGS, AND RECOMMENDATIONS FOR ACTION, FOLLOW:

1. <u>LONG-RANGE PLANNING IS LACKING</u>

TO OUR KNOWLEDGE, THE U.S. LIVESTOCK INDUSTRY, REPRESENTING OVER ONE-HALF OF TOTAL FARM RECEIPTS, WAS NOT CONSULTED EVEN

ONCE ON THE LONG-TERM AGRICULTURAL TRADE STRATEGY (LATS). SPECIFICALLY, WE UNDERSTAND THE CONCLUSIONS OF THE LATS FOCUSED ON GOVERNMENT PRIORITIES RATHER THAN TOTAL INDUSTRY OR SECTORAL OBJECTIVES. IN A MORE FUNDAMENTAL WAY, THE LATS PHILOSOPHY SEEMS MISDIRECTED. IT READS "LATS AIMS AT CREATING AN ENVIRONMENT WHERE THE NATURAL COMPARATIVE ADVANTAGES OF U.S. AGRICULTURE CAN PREVAIL." IMPLICIT IN THIS STATEMENT IS THE COMMODITY DRIVEN EXPORT MENTALITY THAT CURRENTLY EXISTS IN THE AGENCY (I.E., "IF WE CAN CREATE AN ENVIRONMENT WHERE OUR PRODUCT IS THE CHEAPEST, IT WILL SELL"). MISSING FROM THIS APPROACH IS ANY ORIENTATION TOWARD ADDING VALUE, SELLING QUALITY, OR MEETING THE COMPETITION WITH EFFECTIVE MARKETING STRATEGY AND TACTICS.

IN THE MEANTIME, AGRICULTURAL INDUSTRIES INDEPENDENTLY DEVELOP THEIR OWN LONG-RANGE PLANS. THE U.S. MEAT EXPORT FEDERATION FOR EXAMPLE HAS QUANTIFIED AND QUALIFIED OPPORTUNITIES IN THE EXPORT MARKETS THROUGH THE YEAR 2001. ITS MARKETING GRID PRIORITIZES MARKETS AND SECTORS WITHIN MARKETS BASED ON OPPORTUNITIES AND ALLOCATES RESOURCES ACCORDINGLY. HOWEVER, BECAUSE THE GOVERNMENT COMMITMENT TO AGRICULTURAL EXPORTS IS UNCERTAIN, THE INDUSTRY LONG-

RANGE PLANS OF WHICH WE ARE AWARE STRIKINGLY OMIT ANY MENTION OF A GOVERNMENT INDUSTRY PARTNERSHIP OR JOINT ACTION AGENDA IN THE EXPORT MARKETPLACE.

<u>RECOMMENDATION</u>: ALLOW INDUSTRIES TO DEVELOP THE STRATEGY AND TACTICS FOR THEIR RESPECTIVE INDUSTRIES WHILE USDA/FAS ESTABLISHES STRATEGIC DIRECTION ACROSS ALL COMMODITY GROUPS. IN THIS REGARD, ESTABLISH A JOINT LONG-RANGE PLANNING PROCESS BETWEEN INDUSTRY AND THE GOVERNMENT (FAS). SET QUANTIFIABLE EXPORT TARGETS AND PERIODICALLY EVALUATE PROGRESS TO DATE AND/OR REASONS FOR FAILURE TO MEET THE TARGETS. REVIEW LONG-RANGE PLANS ANNUALLY TO ENSURE FLEXIBILITY AND SENSITIVITY TO CHANGING MARKET CONDITIONS.

2. <u>FAS FOCUSES ON PROCESS RATHER THAN RESULTS</u>

USMEF'S BUDGET SUBMISSION FOR THE FY 1993 PROGRAM WAS IN EXCESS OF 650 PAGES. MUCH OF THE CONTENTS CONSISTED OF REDUNDANT OR USELESS INFORMATION THAT ADDED LITTLE TO THE DOCUMENT'S PURPOSE OF OUTLINING SALIENT MARKETING STRATEGY AND TACTICS. EXCESSIVE FAS REQUESTS FOR DETAILS DEFINE THE FOUR-MONTH PROCESS OF WRITING THE PLAN. USMEF'S OVERSEAS

MARKETING DIRECTORS ARE FORCED EVERY YEAR TO SPEND MONTHS AWAY FROM THEIR MARKET DEVELOPMENT WORK SUPPLYING MINUTE DETAILS AND EXCESSIVE PAPERWORK FOR MPP. MEANWHILE, OUR COMPETITION IS OUT POUNDING THE FOREIGN PAVEMENT IN SEARCH OF NEW CUSTOMERS AND SALES.

THE ANNUAL PROCESS OF PREPARING AND REVIEWING MPP PLANS LASTS AN ASTOUNDING SIX MONTHS. PLANS ARE RARELY APPROVED BY THE BEGINNING OF THE MARKETING YEAR, CREATING MARKETING PARALYSIS OVERSEAS. THIS YEAR MAY BE THE WORST SINCE USDA HAS YET TO ANNOUNCE EVEN THE APPLICATION DATE FOR NEXT YEAR'S PROGRAM. THAT MEANS UNCERTAINTY, NOT ONLY FOR OVERSEAS OFFICES, BUT ALSO OUR FOREIGN CUSTOMERS WHO WATCH THE PROCESS IN DISBELIEF AND CONSTERNATION.

IN CONTRAST TO DEVELOPING THE PLAN, THERE SEEMS TO BE LITTLE EMPHASIS WITHIN USDA ON MEASURING RESULTS. FAS STILL HAS NOT DEVELOPED UNIFORM CRITERIA FOR EVALUATION OF PROGRAMS AND ANALYZING PROGRAM EFFECTIVENESS. ADMITTEDLY, THIS IS A DIFFICULT UNDERTAKING BECAUSE OF THE INHERENT PROBLEMS OF QUANTIFYING SUCCESS WITH GENERIC MARKETING PROGRAMS.

HOWEVER, PRIORITIES ON PROCESS RATHER THAN RESULTS DEFINE THE CURRENT ORIENTATION OF FAS MARKETING PROGRAMS.

RECOMMENDATION: DEVELOP A SIMPLE, BUT EFFECTIVE, APPLICATION PROCESS FOR PROMOTION RESOURCES. THIS COULD IDEALLY BE A COMPUTER GENERATED MARKETING GRID WHICH OUTLINES THE BASIC TARGETS IN EACH MARKET AND DESCRIPTIONS OF THE MARKETING TACTICS. ESTABLISH STRICT INTERNAL DEADLINES FOR APPLICATION REVIEW AND APPROVAL. IN ADDITION, ALLOW THE SUBMISSION OF MULTI-YEAR PLANS, PREFERABLY THREE TO FIVE YEARS. ANNUAL REVIEWS FOR BUDGETING PURPOSES WOULD CONSIST OF "FINE TUNING" MULTI-YEAR PLANS ACCORDING TO SHIFTING MARKET CONDITIONS.

RESOURCES PREVIOUSLY UTILIZED FOR TEDIOUS ANALYSIS OF MPP BUDGET SUBMISSIONS CAN BE FREED TO CONCENTRATE ON THE ANALYSIS OF RESULTS AND THE ADJUSTMENT OF PROGRAM FOCUS. THIS "CONTINUOUS IMPROVEMENT" PROCESS SHOULD BECOME A CORNERSTONE OF A NEW, MORE EFFICIENT AND FLEXIBLE GOVERNMENT INDUSTRY EXPORT PARTNERSHIP.

3. **FAS RESOURCE ALLOCATION AND STRUCTURE SHOWS NO OVERALL STRATEGIC FOCUS**

ALTHOUGH FAS MAINTAINS AN ENVIABLE GLOBAL NETWORK OF AGRICULTURAL FIELD OFFICES, THE LOCATION OF THESE OFFICES EXHIBITS QUESTIONABLE STRATEGIC POSITIONING WHEN VIEWED IN THE CONTEXT OF OVERALL EXPORT INTERESTS. FAS OFFICES SHOULD CONSTITUTE THE FRONT LINE OF THE U.S. AGRICULTURAL SECTOR OVERSEAS. SPECIFICALLY, WHEREAS INDIVIDUAL PRIVATE EXPORTING COMPANIES HAVE RELATIVELY SHORT-TERM HORIZONS (AS DEFINED BY STOCKHOLDERS' INTERESTS). INDUSTRY ORGANIZATIONS (I.E., COOPERATORS) HAVE LONGER-TERM HORIZONS. HOWEVER, THE INTERESTS OF INDUSTRIES ARE STILL CONSTRAINED TO A RELATIVELY SHORT (3-4 YEARS) TIME SPAN AND THUS MOST COOPERATORS ALLOCATE RESOURCES TO MARKETS WHERE TRADE IS ALREADY OCCURRING IN SUBSTANTIAL VOLUMES. FOR EXAMPLE, IT IS DIFFICULT TO JUSTIFY TO A PRODUCER ON "RURAL ROUTE ONE" THE NEED FOR AN OFFICE IN SHANGHAI.

THIS IS WHERE USDA/FAS HAS AN ADVANTAGE. FAS RESOURCES SHOULD FOCUS ITS ACTIVITIES IN THE STRATEGIC MARKETS OF THE FUTURE, ESPECIALLY THOSE WHERE U.S. AGRICULTURAL INDUSTRIES HAVE A LOW LEVEL OF EXPOSURE AND REPRESENTATION AND LONG-TERM COMMERCIAL POTENTIAL. SPECIFICALLY, IT IS DIFFICULT TO STRATEGICALLY JUSTIFY AN OFFICE IN COSTA RICA, PORTUGAL,

ALGERIA OR EVEN LONDON WHILE THERE IS A CLEAR SHORTAGE OF PERSONNEL AND RESOURCES IN CHINA, THE FORMER STATES OF THE SOVIET UNION AND MEXICO. AND EVEN THOUGH JAPAN ALREADY HAS A LARGE NUMBER OF COOPERATOR OFFICES, THE POTENTIAL FOR FURTHER GROWTH IN IMPORTS OF ALMOST ALL AGRICULTURAL PRODUCTS--AGAIN BECAUSE OF IMPROVING MARKET ACCESS--(EXCEPT PERHAPS BULK COMMODITIES), IS EXCELLENT. IN THIS SENSE, JAPAN IS STILL A DEVELOPING MARKET.

THE LACK OF PRIORITIES OVERSEAS SEEMS TO EXIST IN FAS/WASHINGTON AS WELL. PERSONNEL WITHIN CERTAIN DIVISIONS ARE OVERWORKED WHILE OTHERS ARE UNDERUTILIZED. FOR EXAMPLE, WITHIN FAS, CRITICAL ANALYSIS OF GATT AND NAFTA ISSUES HAS REMAINED ALMOST ENTIRELY IN THE DOMAIN OF THE INTERNATIONAL TRADE POLICY DIVISION. INPUT BY THE COMMODITY DIVISIONS, WHICH CONTAIN DOZENS OF QUALIFIED COMMODITY ANALYSTS, HAS BEEN MINIMAL TO NON-EXISTENT. IN ADDITION, COOPERATION BETWEEN THE ANALYSIS AND MARKETING SIDES WITHIN THE COMMODITY DIVISIONS IS WEAK.

ORGANIZATIONAL REFORM APPEARS TO BE WORSENING. THE RED MEAT INDUSTRY SEES NO BENEFITS OF FURTHER DILUTING THE WORK

OF FAS BY COMBINING IT WITH OICD INTO THE INTERNATIONAL TRADE SERVICE. IN FACT, THE OSTENSIBLE MISSIONS OF THE TWO ORGANIZATIONS APPEAR TO BE AT CROSS PURPOSES, WITH FAS PROMOTING EXPORTS OF AGRICULTURAL PRODUCTS AND OICD PROMOTING THE EXPORT OF AGRICULTURAL EXPERTISE. OVERSEAS, OUR CUSTOMERS WILL WONDER WHY THE WORD "AGRICULTURE" WAS DROPPED FROM THE AGENCY NAME.

RECOMMENDATION: FAS, IN CONCERT WITH PRIVATE INDUSTRY, SHOULD ANALYZE ITS CURRENT FOREIGN OFFICE STRUCTURE TO DETERMINE HOW TO MAXIMIZE COOPERATIVE SYNERGIES AND COMPLEMENTARITY.

WITHIN WASHINGTON, FAS COULD BETTER INTEGRATE AND COORDINATE ITS TRADE POLICY, MARKETING, AND ANALYSIS FUNCTIONS. RESOURCE AND PERSONNEL EMPHASIS SHOULD BE PLACED IN THOSE AREAS WHERE FAS HOLDS AN ADVANTAGE OVER PRIVATE INDUSTRY, PRIMARILY TRADE POLICY AND ANALYSIS. COMMODITY AND TRADE POLICY ANALYSTS SHOULD BE PLACED UNDER ONE WORK CONE. INTERNATIONAL MARKET ANALYSIS SHOULD BE COORDINATED OR COMBINED WITH THAT CONDUCTED BY THE ECONOMIC RESEARCH SERVICE (ERS) AND FAS SHOULD DESIGN A STRUCTURE WHEREBY

COORDINATION WITH OTHER USDA AGENCIES SUCH AS APHIS, FSIS, FGIS, IS ENHANCED.

4. <u>A LACK OF OVERALL VISION CREATES MISGUIDED WORK PRIORITIES</u>

INEFFECTIVE ORGANIZATION CREATES WARPED PRIORITIES AND PROGRAMS. FAS HAS NOT CLEARLY DEFINED ITS MISSION AND RESPONSIBILITIES TO ITS CONSTITUENTS AND TO ITS EMPLOYEES. FOR EXAMPLE, FAS'S INTERNATIONAL ORIENTATION STILL SEEMS DIRECTED TOWARD CROP REPORTING. MARKET DEVELOPMENT EMPHASIS IS STILL PLACED ON DISPOSING OF SURPLUS BULK COMMODITIES ON WORLD MARKETS WITH CONCESSIONAL PROGRAMS. PERSONNEL HIRING REQUIREMENTS EMPHASIZE ANALYTICAL CLASSROOM EXPERIENCE RATHER THAN MARKETING SKILLS AND PRIVATE SECTOR TRAINING AND EXPERIENCE. THE DESIGN AND ADMINISTRATION OF MARKETING PROGRAMS IS IN THE HANDS OF COMPLIANCE PERSONNEL AND ACCOUNTANT-TYPES WHO HAVE HAD MINIMAL INTERNATIONAL EXPOSURE. THE BULK OF THE MOST USEFUL REPORTING FROM FAS/FIELD OFFICES REMAINS INTERNAL AND CLASSIFIED AND THUS OFF-LIMITS TO THOSE WHO COULD MOST EFFECTIVELY BENEFIT FROM IT. THE BEST CUSTOMERS FOR FAS CROP REPORTS AND CIRCULARS ARE OUR COMPETITION.

RECOMMENDATION: ANALYZE THE RESPECTIVE STRENGTHS OF INDUSTRY AND GOVERNMENT ORGANIZATIONS AND CREATE A PARTNERSHIP BASED ON THESE STRENGTHS. FOR EXAMPLE, MAKE SURE ANALYSIS SUPPORTS EFFORTS IN TRADE POLICY AND MARKETING. IDEALLY, INDUSTRY GROUPS--COOPERATORS--SHOULD TAKE THE LEAD IN MARKETING WHILE FAS/USDA CONCENTRATES ON ANALYSIS AND IMPROVING MARKET ACCESS.

TO ENSURE OVERALL COORDINATION WITHIN THE PARTNERSHIP, USDA/FAS SHOULD CONSIDER STATIONING PERSONNEL IN THE HOME OR OVERSEAS OFFICES OF INDUSTRY COOPERATORS. IN THIS WAY, USDA CAN DEVELOP A SENSE OF ACCOUNTABILITY TO ITS CONSTITUENCY WHILE SIMULTANEOUSLY TRAINING ITS PERSONNEL IN THE TECHNICAL AND MARKETING NUANCES OF EACH COMMODITY SECTOR. AS INDUSTRY EXPERTS, THESE PERSONS CAN THEN ASSIST THE USDA IN THE DIFFICULT DECISION OF ALLOCATING SCARCE GOVERNMENT RESOURCES TO DIFFERENT COMMODITY GROUPS AND DIFFERENT FOREIGN MARKETS.

THE FUNCTION OF OVERSEAS FAS STAFF SHOULD COMPLEMENT THE MARKETING PROGRAMS OF INDUSTRIES. IN NEW MARKETS WHERE INDUSTRIES DO NOT HAVE REPRESENTATION, FAS PERSONNEL BECOME

SALES REPRESENTATIVES FOR ALL INDUSTRIES. IN MORE DEVELOPED MARKETS, ATTACHES AND TRADE OFFICERS SHOULD FOCUS ON OPPORTUNITIES OUTSIDE THOSE COVERED BY INDUSTRY GROUPS. (A GOOD EXAMPLE OF SUCCESS IN THIS AREA IS THE TOKYO ATO'S EMPHASIS ON DEVELOPING A U.S PRESENCE IN THE RAPIDLY GROWING FROZEN AND MICROWAVEABLE FOOD MARKET.) THE CURRENT LITANY OF AGRICULTURAL REPORTING SHOULD BE THOROUGHLY EVALUATED BY U.S. INDUSTRY TO DETERMINE THE EXTENT TO WHICH EXPORTERS BELIEVE IT IS HELPFUL IN PROMOTING EXPORTS.

IN TERMS OF PROGRAM FOCUS, THERE IS NO NEED TO REITERATE THE GROWING IMPORTANCE OF BECOMING MORE AGGRESSIVE IN PROMOTING VALUE-ADDED PRODUCTS. WITH GATT LIMITING THE ABILITY TO SUBSIDIZE BULK COMMODITIES, GREATER EMPHASIS WILL HAVE TO BE PLACED ON INCREASING U.S. MARKET SHARE IN THE VALUE-ADDED TRADE. CURRENTLY, THE FUNDING OF PROGRAMS WHICH DISPOSE OF SURPLUS COMMODITIES EXCEEDS THAT OF PROGRAMS WHICH BUILD NEW MARKETS FOR NEW PRODUCTS BY TEN TO TWENTY FOLD. AND IN FOREIGN MARKETS, IT SHOWS. CURRENTLY, THE U.S. IS A RESIDUAL PLAYER IN THE GROWING VALUE-ADDED EXPORT MARKET, DESPITE THE FACT THAT IT IS A WORLD LEADER IN TERMS OF EFFICIENT PRODUCTION OF THESE FOODS.

SUCCESS IN THE INTERNATIONAL MARKETPLACE WILL REQUIRE A SERVICE MENTALITY TO OUR FOREIGN CUSTOMERS

THE POTENTIAL EXISTS FOR RE-TOOLING THE CURRENT RELATIONSHIP BETWEEN GOVERNMENT AND INDUSTRY. MOST IMPORTANTLY, THE PARTNERS MUST VIEW EACH OTHER AS TEAM-MEMBERS, NOT ADVERSARIES. THE OBJECT OF BOTH PARTIES' FOCUS SHOULD BE THE EXISTING OR POTENTIAL FOREIGN CUSTOMERS OF OUR PRODUCTS. IN THE HIGHLY COMPETITIVE ENVIRONMENT OF THE INTERNATIONAL MARKETPLACE, INDUSTRY AND GOVERNMENT COOPERATION IS VITAL TO REMAINING COMPETITIVE AND CAPTURING INCREASING SHARE IN THE GROWING MARKET. GIVEN THE FACT THAT THESE RELATIONSHIPS ARE THE NORM FOR OUR COMPETITION, AND THAT THE U.S. IS BURDENED WITH A PROMOTION RESOURCE HANDICAP, THE SYNERGY OF THE INDUSTRY/GOVERNMENT RELATIONSHIP MAY BE THE PENULTIMATE FACTOR DEFINING FUTURE U.S COMPETITIVENESS IN FUTURE AGRICULTURAL TRADE.

THANK YOU FOR SOLICITING OUR VIEWS ON THIS IMPORTANT TOPIC.

STATEMENT BY SHARON L.L. COLON

Mr. Chairman and members of the committee, my name is Sharon Colon. I am a vice president with CoBank--National Bank for Cooperatives with responsibility for the bank's relationships with North American agricultural exporters.

CoBank is part of the Farm Credit System. The bank provides financial services to farmer-owned cooperatives; rural utility systems--including electric, telecommunication, water, and waste disposal systems; and to facilitate the export of U.S. agricultural products. Over the past ten years, CoBank has financed $17 billion in export sales to over 40 countries and involving about 30 agricultural products. To assist the bank's customers, we recently opened an office in Mexico City--our first outside of the U.S.

CoBank is the single most active lender participating in the Department of Agriculture's export loan guarantee programs. In recent years, we have accounted for about 40 percent of all the guarantees issued under the GSM loan guarantee programs. With the exception of CoBank, most agricultural export financing for U.S. products is provided by foreign banks with little or no long-term commitment to U.S. agriculture and little or no interest in the long-term health of our nation's farm economy.

Because of our deep involvement in agricultural export activity, we applaud the efforts of the administration and Congress to make our nation's export programs more effective.

Frankly, CoBank is not in the best position to comment on specific changes being discussed about the formal organizational structure of the government's export programs. However, we believe certain principles--if applied properly--will ensure the successful operation of these programs from the stand point of foreign purchasers and other parties. These principles are as follows.

- Credit programs should continue to be the cornerstone of our export promotion programs. The availability of credit has been a critical factor in helping make U.S. agricultural products competitive in world markets.

- The Department of Agriculture's export programs should be viewed as a partnership arrangement between farmers, exporters, shippers, lenders and foreign purchasers. In this regard, the administration's stated intent to make government more customer oriented is welcome.

- Any reorganization or consolidation of U.S.D.A. programs should take into account the need for departmental staff in foreign countries to be knowledgeable and conversant about our country's export programs. In addition, that staff should be in touch with developments in local markets and be positioned to help respond to new developments--such as the privatization efforts taking place in Central Europe.

- We believe there is considerable merit in continuing to maintain separate programs intended to expand agricultural markets. While it may be possible and even desirable to coordinate U.S.D.A. programs with those of other departments, agriculture is a unique industry with unique problems and opportunities. Further, agriculture's most significant opportunities are mostly in developing countries which may be of lesser interest to other domestic industries.

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FAS information and education about U.S. agriculture and U.S. exports, and the opportunity to trade with the U.S. agricultural industry, play an important role in the success of our trade programs. The U.S.D.A., through the CCC, the FAS and other departments and agencies, has done a good job but could use more support.

Trade associations and representative groups along with private enterprises need to utilize and support these efforts. We have found the cooperation and support of these various organizations to be helpful to us in promoting the sales of our customers. We believe it would be beneficial if there was a broader understanding of the commodity information, the existence of various buyers and sellers, and the financing and assistance programs available. FAS clearly could expand its role in this area.

As indicated, CoBank believes the most important and effective export financing programs to date have been the CCC's GSM-102 and 103 programs. Some distorted and unwarranted criticism has been directed toward the programs in recent months; however, they have generally been effective and positive in furthering trade. Rather than considering significantly different approaches, CoBank believes that the GSM programs need some improvements, refinements, expanded use and support.

Program changes that would facilitate commercial transactions on a competitive basis are understood and well-received by foreign banks and buyers, and can be handled with minimal expense and acceptable risk to the U.S. government and the exporting and banking communities.

For example, we believe a better balance could be achieved between the market development, trade enhancement, and foreign policy issues on one hand and "creditworthiness" issues and other requirements on the other hand. In this regard, we would encourage the development of a "partnership" between commercial lenders and the U.S.D.A. in establishing "creditworthiness guidelines" for prospective buyers or importing countries, giving consideration for utilizing the expertise and experience of lenders in this area.

In recent years, many of CoBank's customers have sought new business opportunities through joint ventures and partnerships in foreign countries and in the U.S. Such strategic alliances are common for many businesses and essential for farmer-owned cooperatives seeking to enter new markets or create new sources of profits for farmers by adding value to agricultural commodities. The FAS could be of assistance in helping U.S. companies identify opportunities and develop foreign markets for processed or value-added products.

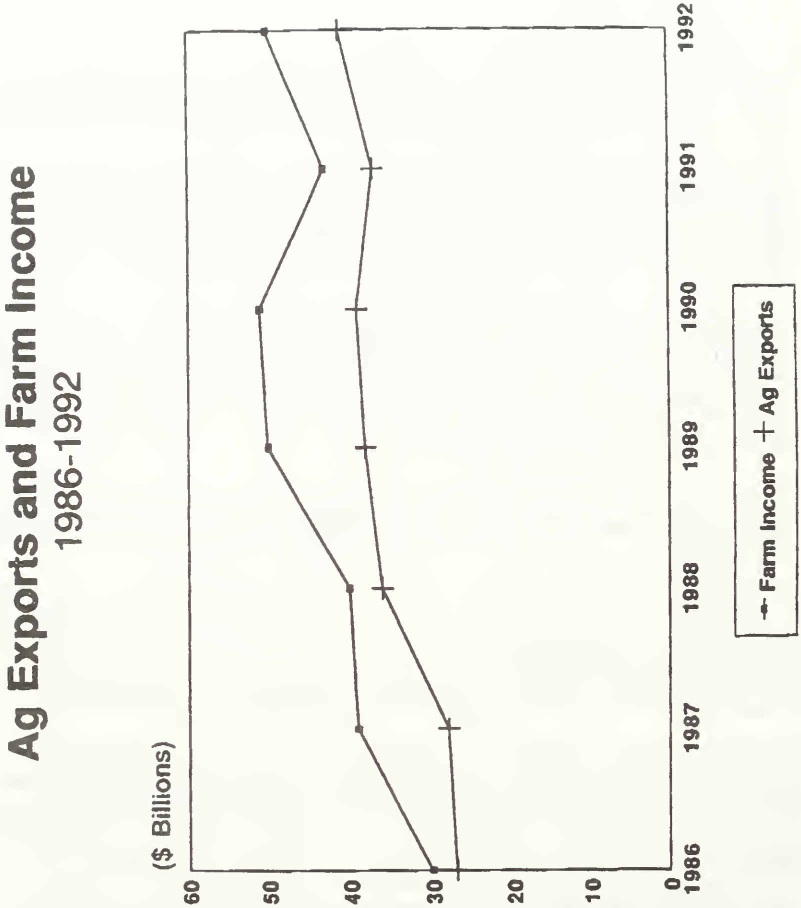
Several years ago, for example, FAS officials were instrumental in helping purchasers in Mexico acquire nonfat dry milk from the U.S. That success helped open a very significant market for U.S. processed dairy products.

It is estimated that each $1 in U.S. agricultural exports generates an additional $1.40 in related economic activity. Each $1 billion in agricultural exports is estimated to create 21,900 jobs. The correlation between exports and farm income is graphically displayed in the attachment to my testimony.

The future of rural America will be largely dependent on the maintenance and expansion of export markets, the development of new markets in foreign countries, and on the ability of farmers to capture profits that can be realized be adding value to their product after it leaves the farm gate. For those reasons we will strongly support any efforts by the administration and Congress to make the Foreign Agricultural Service and related federal agencies more effective.

Mr. Chairman and members of the committee, I appreciate the opportunity to appear here today. I would be pleased to respond to any questions.

(Attachment follows:)


Ag Exports and Farm Income
1986-1992
($ Billions)
60
50
40
30
20
10
0
1986
1987
1988
1989
1990
1991
1992
Farm Income
Ag Exports

TESTIMONY OF

PAUL WEBSTER
PRESIDENT
WEBSTER LUMBER COMPANY

Thank you very much, Chairman Penny and Chairman Condit, for the opportunity to testify today on the future direction of the U.S. Department of Agriculture's Foreign Agricultural Service (FAS) and the several programs it currently manages. I am testifying on behalf of the American Forest & Paper Association and the entire U.S. solid wood industry, which includes more than twenty trade associations and their 7,500 member companies who benefit from the various groups of services offered by the FAS program (see Attachment A).

The American Forest & Paper Association (AFPA), of which my company is a member, represents approximately 550 member companies and related trade associations which grow, harvest, and process wood and wood fiber, manufacture pulp, paper and paperboard products from both virgin and recovered fiber, and produce solid wood products. As a single national association, AFPA represents a vital national industry which accounts for over 7 percent of the total U.S. manufacturing output.

The industry employs some 1.4 million people, and ranks among the top 10 manufacturing employers in 46 states, with an annual labor cost of about $46 billion. The forest and paper products industry generates sales of $200 billion annually. As a significant exporter to global markets, with exports of $17 billion in 1992, the industry makes an important contribution to the U.S. balance of payments.

I am a long-standing member of the AFPA, and also an active member of the American Hardwood Export Council (AHEC). Both of these groups currently manage significant export promotion programs funded through the FAS. I also come to you today as the President of Webster Lumber Company. My family has been involved in the harvesting and sawmilling of hardwood timber in Southeastern Minnesota and across the upper Mississippi valley for over ninety years. My timber suppliers are farmers with small portions of their land growing hardwoods on steep, non-cultivatable hillsides. I have several thousand of these farmer/suppliers who depend on me to buy their timber crop for cash.

FAS MISSION:

The FAS mandate is to encourage the expansion of exports of U.S. food and fiber products. FAS maintains a global network of agricultural officers as well as a Washington based staff to achieve this mandate by analyzing and disseminating information on world agricultural and trade, by representing the agricultural trade policy interests in multilateral and bilateral forums and by administering overseas market promotion activities.

We continue to feel that this is the correct focus for the FAS, and any changes considered as a part of a reorganization or budget cutback should keep this central mission in mind. Those

functions currently being performed by FAS that do not directly support this mission are the ones that could be submitted for further scrutiny. Our industry's decade of experience with FAS export programs has demonstrated that the programs work, and are not in need of reorganization. Three key points need emphasis in order to insure that FAS moves ahead to fulfill its mandate from a position of strength. They are:

1. PARTNERSHIP BETWEEN INDUSTRY AND GOVERNMENT:

Our experience with the FAS program has been successful first and foremost because of our partnership with the FAS staff in Washington and at the posts overseas. This partnership allows the public and private sectors to specialize and perform the tasks each is most effective in performing. This close working relationship is what makes the FAS program unique and has allowed our industry to learn and grow into new markets around the world. The analytical, marketing, trade policy and logistical support we receive on a regular basis from FAS has been invaluable to our industry, which is primarily composed of small to medium sized companies. We rely on the information and trade policy reports from the posts and from the analysis of the domestic marketing staff when formulating and carrying out our plans each year. When a new market opportunity presents itself, it is often the overseas post who is the first to alert us. We can then take

that information back to our industry to devise a strategy for promotion.

FAS also helps us to monitor and evaluate our gains. We are working closely with the analysis staff in the Forest Products Division to better track value-added exports and exports of wood products by species. This analysis has helped focus the export picture more clearly on value-added gains, the most rapidly growing export sector in the wood products industry.

The management methodology adopted by FAS is a sophisticated tool for ensuring that U.S. government funds are spent wisely, and is constantly updated to incorporate congressional and GAO recommendations and requests, as evidenced by: 1) FAS conducts careful analysis of market opportunities and incorporates them into long-term agricultural strategies for market promotion activities, and 2) FAS requires both activity plan and full program evaluations to identify successes, failures, and areas of improvement for U.S. industry to do a better job of marketing its products overseas.

These changes and others, along with greatly enhanced FAS oversight, have led FAS to become more involved in their review of funding applications and annual marketing plans to ensure value for money. They should be commended for their work in

improving programs which help maintain and support U.S. agricultural exports worldwide.

2. COOPERATOR MARKETING PROGRAMS:

When we speak of cooperator marketing programs we are referring to the Foreign Market Development (FMD) and the Market Promotion Program (MPP). The current mix of FAS Washington staff, overseas posts, U.S. industry funding, and FMD & MPP funds should, at the very least, be strengthened. Why? Because they work.

Furthermore, these are not giveaway programs. The industry devotes enormous resources, energy, and time to the program. FAS marketing programs are also cost effective: during the program's past seven years, for every $1.00 of FAS funds spent, total U.S. wood products exports increased by $394.

The forest products industry export programs do not benefit individual companies directly, but rather create demand overseas through generic promotion. This indirectly helps companies, especially small ones like mine, that would otherwise not participate in export markets. Let me give two examples.

The U.S. hardwood sector exemplifies the success of FAS export initiatives. Exports of hardwoods increased from $500

million in 1985 to $1.9 billion in 1992. The strong and growing export market fueled by the FAS generic promotion programs have helped keep the hardwood industry in business through tough domestic recessionary trends. Many small hardwood companies would have had to shut down had it not been for the recent significant growth in our export markets. The percentage of production of many of these companies that have been devoted to exports, has increased by sometimes over 50% and has been a major factor in helping them survive economic hard times.

Georgia Pacific Corporation (G-P) provides an example of a large company that dramatically changed its marketing strategy because of the effectiveness of the FAS program. In the early eighties, wood products exports were not a high priority for the company. Recently, however, G-P demonstrated a strong commitment to exporting when it allocated significant company resources to international marketing including new offices in Europe, Latin America, and Asia. G-P's vice president for marketing and international said that G-P's decision to commit substantial company resources was based in large part upon the proven effectiveness of FAS generic marketing programs in developing markets for value added wood products. He said that successes of the FAS programs gave G-P the evidence needed to push forward on their own.

The partnership with FAS remains a vital part of the industry's export strategy. Not only must we maintain the gains of the late 1980's, but we have yet to reach our full estimated export potential of $8 to $12 billion annually by the end of the decade.

Onerous trade barriers coupled with the lack of foreign knowledge about U.S. solid wood products have constrained growth. In response, the U.S. industry has developed an interlocking strategy for creating additional markets for processed, value-added wood products. Market development activities such as those conducted under the MPP and Foreign Market Development Program are a key component of an integrated strategy that combines market development, trade policy, and export financing - all supported by an integrated commodity specific information gathering and analysis function.

Market development activities maintain and expand markets and provide the high visibility necessary to invigorate trade negotiations; trade policy opens markets by reducing trade barriers; and export financing helps fuel exports to take advantage of the demand generated by market development and the market access gained through trade negotiations. The fact is, U.S. government efforts to eliminate trade barriers have a much greater chance of success if supported by a positive and highly visible promotion program such as those conducted under FAS.

3. EXPORT CREDIT PROGRAMS:

In addition to the market promotion programs, the wood products industry has used the credits provided under the Export Credit Guarantee Program (GSM-102) to initiate sales to new markets. As an illustration, the GSM credits have been useful in introducing U.S. wood products in the North Africa region as well as in Mexico. The U.S. wood products industry has worked with the Forest Products Division of FAS to determine those markets eligible for credits that were also target markets for our promotional campaigns. The coordinated efforts of the industry and government have paid dividends for U.S. exporters in sales into new markets. There has been some concern however, about the ability of the wood products industry to fully access the benefits of the program. These concerns are highlighted in Attachment B submitted for the record by the Southern Forest Products Association, a forest industry cooperator and member of AFPA.

CHANGES IN FAS:

The forest products industry commends Secretary Espy and these committees' efforts to make the USDA more efficient and responsive to its constituents. Success in some areas has already been achieved with more thorough evaluations and program

audits, ensuring cooperator responsibility in the expenditure of tax payer dollars. As Secretary Espy considers his options for reorganization of the Department of Agriculture, our industry recommends that the current structure which has worked so well in the past not be dismantled. We would urge that it in fact, be strengthened, so that the mandate of FAS is more easily achieved.

PROPOSED CONSOLIDATION OF OICD WITHIN FAS AND FAS REORGANIZATION:

We believe that FAS has the basic organizational structure in place and the tools to achieve its mandate of increasing exports of food and fiber products. This has been ably demonstrated. We think that the OICD consolidation is a large and important step and that this should be completed before any other significant changes are made within the agency.

We also understand, however, that FAS is facing severe budgetary restraints and is even considering reducing staff and offices overseas to meet these proposed budgetary requirements. When well coordinated FAS's (1) trade policy, (2) information gathering and analysis, and (3) marketing activities generate an export promotion program that is synergistic and unparalleled in effectiveness and we therefore respectfully question the current proposal to modify or change this basic structure.

Secretary Espy has indicated a strong interest in increased attention to foreign market development and we are aware that changes in FAS are being considered in response to this. We ask that the Department reach out to FAS's partners in export promotion for their ideas and concerns, just as Secretary Espy did to the farm community in reorganizing other parts of USDA. This dialogue needs to be initiated when the Department is early in the formative stage of its decision making process.

We have recently seen a proposed organizational chart which merges the marketing function currently held by product division into one single division covering all product groups. This proposal would reduce the effectiveness of the export expansion program by separating the marketing function from the supportive and integral information and trade policy activities.
It would in effect, down grade the marketing staff function by reducing the staff's expertise in given product areas and creating a large department of generalists. This new proposal would maintain the commodity divisions only on the analysis side.

We would strongly urge that this reorganization be reconsidered and the current, successful structure be maintained but improved by increasing communication and coordination with the trade policy function. The interaction of the market specialists with information analysts by product group has enhanced FAS's ability to interact with the cooperators in their

marketing programs and has also provided consistent, useful feedback and suggestions in the marketplace.

A proposal for reorganization on such a large scale should be discussed with the Department's constituents, the agricultural commodity groups using the program. I'm sure we all have some constructive ideas as to how the FAS program can be improved - how it can better serve our mutual mandate of export expansion. When Secretary Espy speaks about the need to focus upon export marketing activities, he is talking about how to make a good program even better - we think we can help.

We would not support the merging of all marketing staff into one division. The current structure allows for meaningful interaction on a daily basis with experts on both the analysis and marketing of individual commodities. We in the forest products industry are very fortunate to have our own commodity division, the Forest Products Division. The effectiveness and success of our program are a testament to the partnership between our industry and the individuals who have worked in this division.

RELATIONSHIP BETWEEN FAS PROGRAMS AND THE TRADE PROMOTION COORDINATING COMMITTEE:

The Trade Promotion Coordinating Committee report focused on new priorities, improved coordination, the elimination of overlap, increased coordination between trade policy and marketing initiatives, the taking advantage of trade policy created export opportunities, the need for priority driven programs generated by a rigorous methodology, the identification of the best industry program which reflect each agency's comparative advantage in delivering priority export services.

We know of no other government program that is as effective in meeting the objectives set forth in the TPPC Report as the cooperative FAS/industry export expansion program. Our experience in Japan is an excellent, documented example of this statement.

The expanding opportunities for U.S. wood product exports in japan provides an especially clear example of what can be accomplished when market development activities and trade policy initiatives are coordinated and targeted at a common objective. What is especially noteworthy of this example is the mutual dependence of these fundamental functions of FAS.

In Japan today, there are 81 large wood-frame buildings under construction or soon to be constructed by the private sector. Additionally, there are nine publicly funded wood-frame structures for U.S. wood product exports. Without the

coordinated FAS market development and trade policy activities, these 90 structures would not exist. The Ministry of Construction of Japan predicts that the number and size of these types of buildings will increase at a faster rate than other types of construction.

In 1990, the United States and Japan concluded an Agreement with the objectives of increasing market access and wood utilization. This Agreement was a culmination of the 1985 MOSS negotiations, which USDA chaired and the 1990 Super 301 negotiations chaired by USTR but in which USDA played a key role (USDA has responsibility for the implementation of the Agreement). The primary obstacle to gaining the objective of increased wood utilization was Japan's restrictive building code which severely restricted wood construction. Japan's justification for these restrictions was concerns about the safety of wood-frame construction.

The significant progress achieved by the Agreement in permitting increased wood utilization was primarily the result of five years of technical educational activities focused on the performance of modern wood-frame structures in resisting earthquake forces and fire spread. These activities were carried out under the TEA program and continued under the MPP program. The target audience for these activities included architects, engineers, public housing officials and building code

specialists. One of the key elements was the construction of a demonstration project featuring fire spread and earthquake resistant engineering. The progress achieved in the 1990 negotiations, which resulted in the revision of the building code to permit large wood-frame buildings, would not have been possible without the consensus - so important in Japan, of key technical and code officials of the safety of wood-frame construction. Since the signing of the Agreement, the industry's FAS market development activities have focused on taking advantage of the export opportunities created.

This example makes clear the essential relationship between market development activities and trade policy initiatives. It also demonstrates that when these activities are coordinated and targeted at a common objective the results are greater than could be achieved separately.

DO THE PROGRAMS WORK?

Our U.S. forest products industry message to this committee is simple and very straightforward -- the FAS programs work and have accomplished a great deal.

- FAS programs are revenue earners for our country. Employment gains from exports have brought an estimated $345 million in increased annual Federal tax revenues

from our wood industry alone, more than the cost of the entire MPP and FMD program.

- o The FAS programs have helped create 103,000 jobs: 37,000 direct industry jobs, and another 66,000 indirect jobs.
- o The FAS/industry partnership has helped hundreds of small mills such as mine, especially in the South, Northeast and Middle West, stay in business.
- o The broad based market promotion programs have helped every sector of the wood products industry promote the full range of U.S. value added wood products.
- o Since 1985, FAS has helped wood products exporters achieve remarkable growth, with exports more than doubling from $3 to $6.7 billion.
- o These programs have been a tremendous help to our industry in establishing the foundations for significant future export gains.
- o Cooperation to administer the FAS program has united our industry and made it an effective international competitor, creating enthusiasm and a level of commitment to export never seen before.
- o The FAS programs have helped this industry make a major contribution to the correction of the U.S. trade deficit and have helped the U.S. go from a net importer of wood products to a net exporter.

The FAS programs have changed traditional overseas buying habits, helped overcome foreign trade barriers, and laid the foundation for future export gains in new markets for U.S. wood products in a broad range of end uses. They have united our industry to work together in a single export program, which in itself is a very unique achievement.

Why has all this happened? Simple because the programs work. They are cost effective. They incorporate a sophisticated management system which includes strategic planning and program evaluation.

The FAS programs are a model of how the best talents of government and the private sector can work together to effectively compete in the international environment. These programs should not only be supported, but expanded and duplicated in other areas of government. It is unfortunate that they have obviously been misunderstood and on that basis received undue criticism and negative press which threatens to not only tarnish their image, but also to undo their effectiveness.

On behalf of our industry I would like to thank you, Mr. Chairmen, and your fellow committee members, for your strong support of FAS programs and, through these hearings, your commitment to listen and work with us to make these programs effective. We would urge the Secretary of Agricultural and his

staff to mirror your efforts to listen to all sides of the issues involved and to consider the needs of the cooperators when implementing major departmental changes. We are ready and willing to participate in this process but would truly like to be consulted on any agency changes so that we can provide you with our input.

(Attachments follow:)

Attachment A

LIST OF WOOD PRODUCTS INDUSTRY COMPANIES AND ASSOCIATIONS WHICH SUPPORT FOREIGN AGRICULTURAL SERVICE (FAS) PROGRAMS

Associations representing the wood products industry with a combined representation of over 7,500 companies with operations in all 50 states support FAS programs:

Association Support	Number of Members
American Forest & Paper Association	550
American Hardwood Export Council	80
American Ins. of Timber Construction	427
American Plywood Assn.	53
American Walnut Manufacturers Assn.	13
Appalachian Hardwood Manufacturers	169
Fine Hardwood Veneer Assn.	34
Hardwood Manufacturers Assn.	115
Hardwood Plywood Manufacturers Assn.	163
Lake States Lumber Assn.	200
National Dimension Manufacturers Assn.	120
National Hardwood Lumber Assn.	1200
National Wood, Window and Door Assn.	141
Northeastern Forest Resource Alliance	4
Northeastern Loggers' Assn.	2343
Penn-York Lumberman's Club	261
Southern Forest Products Assn.	198
Southeastern Lumber Manuf. Assn.	510
Walnut Council	650
Western Wood Products Assn.	225
Wood Moulding & Millwork Producers Assn.	110
TOTAL	7566

Partial List of Company Support

Abenaki Timber Corp.	W.Springfield	NH
Anderson-Tully Co.	Memphis	TN
Augusta Logging Exporters, Inc.	Staunton	VA
Averitt Lumber Co.	Clarksville	TN
Baillie Lumber Co., Inc.	Hamburg	NY
Blaney Hardwoods	Barlow	OH
Boise-Cascade	Boise	ID
Bradford Forest Products	Bradford	PA
Cardinal Trading, Ltd.	Portland	OR
Cedar Shake & Shingle Bureau	Bellevue	WA
Coastal Lumber	Weldon	NC
Cole Hardwood Inc.	Logansport	IN

Contact Lumber	Portland	OR
David R. Webb Co., Inc.	Edinburgh	IN
Emerson Phares Lumber Co.	Elkin	WV
Fitzpatrick & Weller, Inc.	Ellicottville	NY
Freeman Corp., The	Winchester	KY
Friedman Hardwoods	Columbus	OH
Georgia-Pacific	Atlanta	GA
Germain Timber Co.	Pittsburgh	PA
Gutchess International Inc.	Cortland	NY
Hanafee Bros. Sawmill Co. Inc.	Troy	TN
Hancock Lumber	Casco	ME
Hoosier Timber	Indianapolis	IN
Interforest Corp.	Durham, Ontario	
International Paper	New York	NY
International Veneer Co. Inc.	South Hill	VA
J.M. Jones Lbr. Co. Inc.	Natchez	MS
J.W. Jones Lumber Co.	Elizabeth City	NC
Kitchen Brothers Mfg. Co.	Hazlehurst	MS
Louisiana Pacific	Portland	OR
Matson Wood Products	Brookeville	PA
Michigan-California Lumber	Camino	CA
Midwest Lumber & Dimension Inc.	Floyd Knobs	IN
Monadnock Forest Products, Inc.	Jaffrey	NH
Monticello Hardwood, Inc.	Monticello	MS
Neff Lumber Mills, Inc.	Broadway	VA
Nicolet Hardwoods	Laona	WI
Norstam Veneers Inc.	Mauckport	IN
Northland Forest Products	Kingston	NH
North Pacific International	Portland	OR
North Pacific Lumber Co.	Portland	OR
O'Shea Lumber Co.	Glen Rock	PA
Owens Forest Products	Duluth	MN
PFS Corp.	Madison	WI
P.W. Plumly	Winchester	VA
Pierson-Hollowell Co.	Lawrenceburg	IN
Plum Creek Timber Co.	Seattle	WA
Pope & Talbot	Portland	OR
Prime Lumber Co.	Thomasville	NC
R.C. Services	Philadelphia	PA
Rajala Companies	Deer River	MN
Schmid Lumber Co. Inc.	Indianapolis	IN
Shannon Lumber International	Memphis	TN
Snavely Forest Products Inc.	Pittsburgh	PA
South-Central Timber Development	Anchorage	AL
Stimson Lumber	Portland	OR
T & S Hardwoods	Milledgeville	GA
Taylor Lumber, Inc.	McDermott	OH
Taylor-Ramsey Corp.	Lynchburg	VA
TECO	Madison	WI
Tex-O-Cal Hardwoods, Inc.	Temple	TX
Timber Products Co.	Medford	OR
Tradewest Hardwood Co.	Long Beach	CA
Tradewinds International, Inc.	Savannah	GA
USA Woods International	Memphis	TN

W.M. Cramer Lumber Co.	Hickory	NC
Walter H. Weaber Sons Inc.	Lebanon	PA
Webb Export Corp.	Edinburgh	IN
Webster Industries Inc.	Bangor	WI
Weyerhaueser	Tacoma	WA
Whitson Lumber Co.	Nashville	TN
Willamette Industries Inc.	Albany	OR
World Wood Co.	Cove City	NC

ATTACHMENT B

SOUTHERN
FOREST PRODUCTS
ASSOCIATION
P.O. Box 641700 Kenner, Louisiana 70064-1700 Telephone 504-443-4464 FAX 504-443-6612

GSM CREDIT PROGRAMS

Member companies of the Southern Forest Products Association have used the credits provided under GSM-102 to open new markets and expand existing market share. The GSM credits have been useful in gaining a foothold in North Africa as well as in Mexico, and have allowed U.S. exporters to initiate significant new sales into these markets. Although coordinated efforts of the industry and government have paid dividends for U.S. exporters, SFPA believes even greater dividends could have been achieved.

The U.S. wood products industry has long sought to extend the credit terms for U.S. wood products under the GSM-102 program from the current 720-day, or 2-year, limit to the three-year terms offered for other agricultural products. But, agencies outside of USDA have refused to allow FAS to extend the credit terms for wood products. These agencies have cited the OECD Bern Agreement as the basis for this denial, despite the fact that the U.S. government is not a signatory to the agreement. Furthermore, the Bern Agreement has also been used as the basis for denying the U.S. wood products industry access to the GSM-103 program. Wood products have only been sold under the P.L. 480 program in one case, and that was to Jamaica after Hurricane Gilbert.

SFPA believes that ever since 1988 the Administration has been in violation of the will of Congress. Congress, in the Omnibus Trade and Competitiveness Act of 1988, redefined the term "*agricultural products*" to include wood and processed wood products in the definition for Short-Term Export Credit Guarantees and the Intermediate-Term Export Credit section (Sec.4402). Furthermore, Congress specifically directed in Section 4404 that "*The Secretary of Agriculture shall actively use Department of Agriculture concessional programs and export credit guarantee programs to promote the export of wood and processed wood products.*"

FAS domestic staff have worked diligently on behalf of the U.S. wood products industry to put wood products on an equal footing with the other agricultural commodities under the GSM and P.L. 480 program, but have been stymied at every turn. The U.S. wood products industry has become a net exporter of wood products rather than a net importer, thereby helping the balance of trade. Also, wood products exports helped to keep many people employed during this past recessionary and slow recovery period. SFPA believes greater export levels could have been achieved if wood products were allowed access to the GSM-103 and P.L. 480 programs.

Therefore, to enhance the ability of the U.S. wood products industry to expand exports, SFPA requests that the following changes be made in the GSM and P.L. 480 programs:

1. Extend the credit terms for U.S. wood products under the GSM-102 program to three (3) years.

2. Include U.S. wood products as an eligible commodity to be sold under the GSM-103 program. Furthermore, direct FAS to actively plan and use the credits for framing lumber and panel products sold to Mexican companies for wood frame constructed houses.

3. Include U.S. wood products as an eligible commodity to be sold under the P.L. 480 program. Furthermore, direct FAS to actively plan and use the credits for framing lumber and panel products sold to Mexico for wood frame constructed houses.

ATTACHMENT C

PAUL DUDLEY WEBSTER
Box 47
Crystal Bay, Minnesota

Birth Date	- July 23, 1930 in Minneapolis, Minnesota
Children	- Elizabeth - 32 Rebecca - 28
Education	- B.A. & B.S. - Macalaster College - 1954 Fulbright Scholarship Award Winner - 1955 Harvard Business School - 1972 & 1973
Webster Industries	- President & Chief Executive Officer Hardwood Lumber Railroad Ties Furniture Dimension & Kitchen Cabinet Parts Millwork & Interior Paneling & Flooring Pallets, Crates, Boxes
Webster Wood Preserving Company Bangor, WI	- Managing Partner Pressure Treating of Hardwood Cross Tie
Bangor Equipment Company Crystal Bay, MN	- President Equipment Rental & Air Charter
Hardwood Equipment Company Bangor, WI	- General Partner Equipment Rental
Webster Truck & Caster Company Watertown, SD	- President Industrial Wheels & Casters Material Handling Trucks (nonpowered)
GPI - d/b/a Caveman Lumber Company Merlin, OR	- Treasurer & Co-owner Remanufacturing of Green Douglas Fir

Professional and Trade Associations

1. National Oak Flooring Manufacturing Association, Memphis, TN - Past Director & Officer
2. Maple Flooring Manufacturers Association, Oshkosh, WI - Past Director

Paul Dudley Webster -2-

Professional and Trade Associations (cont'd)

3. National Hardwood Lumber Association, Memphis, TN - Past President & Director
4. Northwestern Hardwood Lumbermen's Association, Minneapolis, MN - Past President & Director
5. The Railway Tie Association, Gulf Shores, AL - Past President & Director
6. Timber Products Manufacturers - Spokane, WA - Past President & Director
7. American Wood-Preservers' Association, Washington, DC - Past Director
8. American Wood Preservers Institute, Washington, DC - Past Director
9. Western European Institute of Wood Impregnation - Brussels, Belgium - Director & Member of Committee #3 - Wood Cross Ties
10. World Business Council - Member
11. Minnesota Executives' Organization - Member
12. National Lumber Exporters Association - Director

Clubs

1. Woodhill Club - Wayzata, Minnesota
2. Minneapolis Club - Minneapolis, Minnesota
3. Lafayette Club - Minnetonka Beach, Minnesota
4. Skylight Club - Minneapolis, Minnesota
5. Washington Athletic Club - Seattle, Washington
6. Seattle Tennis Club - Seattle, Washington
7. Useless Bay Country Club - Freeland, Washington

Special Interests

1. Minnesota State Trapshooting Association - Past Secretary/Treasurer
2. Northwest Skeet Shooting Association - Past President & Director
3. Twin City Hopkins Gun Club - Past President & Director
4. Active Pilot - 40 plus years - Multi-engine, Instrument, Commercial and Float Plane Rating
5. Foundation for North American Wild Sheep - Life Member
6. Game Coin - Member
7. The Grand Slam Club - 3 Grand Slams - Life Member
8. Boone & Crockett Club - Executive Committee
9. Boone & Crockett Foundation - Director
10. International Sheep Hunters Association - Life Member and Director
11. Arizona Desert Bighorn Sheep Society - Supporter
12. NRA - Supporter
13. Wildlife Legislative Fund - Supporter
14. Wildlife Conservation Fund - Supporter
15. World Wildlife Fund - Sustainer

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